

An Assessment of Skill Needs in Financial Services and Accountancy

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Financial Services National Training Organisation (FSNTO)

Accountancy National Training Organisation (ANTO)

Association of Unit Trusts & Investment Funds (AUTIF)

General Insurance Standards Council

Further Education Funding Council

The Department for Trade and Industry

The Council for Administration

SCONTO

Northern Ireland Training and Employment Agency

The Scottish Executive

The National Assembly for Wales

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Foreword

As the representative National Training Organisations (NTOs) for the Financial Services and Accountancy sector, we welcomed the commitment of the National Skills Task Force to the importance of a sectoral dimension in understanding skills issues.

This report has been developed as a result of a partnership between NTOs, their employers and Government, and has involved consultation with a wide range of partners, including some of the funding and planning bodies, who will benefit from this information. It has brought together a wide range of information, including key findings from each of our Skills Foresight programmes, existing research evidence and the outcomes of a seminar convened by DfEE in May 2001 to support the Dialogue process.

The result is a detailed and thorough assessment of the current and projected skill needs in Financial Services and Accountancy, which will be an invaluable source of information for education, training and careers planners. The key messages that have emerged present a clear challenge to the sector in the future.

- ▶ The need for partnership to bring organisations together to tackle skills shortages in the sectors.
- ▶ The need for comprehensive and accurate data upon which to base future employment and skills projections.
- ▶ The need for clear and open dialogue and communication if a role is to be found for the public sector in supporting employers.

These challenges will require innovative and flexible solutions to be found by the industry, training providers, colleges and the development agencies that support them - across the whole of the UK.

We look forward to working with the Learning and Skills Council (LSC) and its local arms, Regional Development Agencies (RDAs), Connexions and Careers Advisors and to strengthening valued partnerships with key organisations in England, Scotland, Wales and Northern Ireland in order to address these challenges.



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Acting Chief Executive
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Skills Dialogues - General Introduction

Skills Dialogues constitute a series of consultations with all major industrial and business sectors, leading to the production of high quality authoritative skills assessments within 16 broad sectors. Dialogues developed from recommendations in the 2nd Report of the Skills Task Force, *Delivering skills for all*, as a means of providing better quality information on changes in skills supply and demand at a sectoral level. They draw on research undertaken by National Training Organisations (NTOs) through Skills Foresight and other projects as well as a wide range of national research on current and future skills needs. Recognising the UK remit of NTOs the dialogue reports reflect the UK perspective as far as possible, although not all the available evidence which underpins the Dialogues is UK wide. Typically, the reports do not provide a region by region analysis but they do attempt to illustrate any major regional differences. The Skills Dialogues operate as a rolling biennial programme with the first four reports already published and the rest of the series due to appear by Spring 2002.

The purpose of the dialogues is to improve the quality of skills information available at a sector level, and to provide an effective voice for NTOs and employers in their sectors in the planning and implementation of education and training provision and in informing careers advice and guidance. They will ensure that industry sector views are well articulated and represented to major stakeholders, such as the Learning and Skills Council (LSC) and its local arms, Regional Development Agencies (RDAs) and careers services. The dialogues are designed to draw on the work of individual NTOs but to cover broader industrial groupings, so as to aid strategic planning and make the information base more manageable.

The assessments produced through the dialogues should also directly contribute to Sector Workforce Development Plans, as the evidence on skill needs will underpin proposed action and influence the nature of relationships with key partners. These plans will form a strategic statement of NTOs' proposed activities, relationships with partners and stakeholders and targets for achievement.

Each report results from a process of consultation with the main organisations in the sector to identify the key issues, and a wide ranging analysis of existing material on skills supply and demand, and factors influencing skill trends. The evidence includes sector specific analysis from the recent national research conducted on behalf of the National Skills Task Force including the Employer Skills Survey (ESS) and Projections of Employment and Qualifications by the Institute for Employment Research as well as the NTOs' own Skills Foresight research. The material is brought together into a draft discussion document for a national seminar, which involves all the key interests in the sector, such as employers, NTOs, Further and Higher Education planning, funding and qualifications' bodies, trade unions, professional associations and government departments.

The final report takes on board the comments from all those involved in the Dialogue and provides a comprehensive analysis of the skill needs and an authoritative statement about skills trends in the sector. We hope they will be useful to policy makers and planners in other parts of the United Kingdom. For example, a series of skills monitoring and forecasting exercises are being undertaken in Northern Ireland and the work on this and other Dialogues will inform the Northern Ireland research.

1 Executive Summary

1.1 Background

The UK Financial Services sector in general and the City of London in particular has a long established international reputation for excellence and dynamism amongst the strongest global competition. The industry employs some 2.4 million people, predominantly within higher level occupations - ie 95% of the workforce within SOC 1 to 4¹ - across the following main sub-sectors:

- ▶ Banking and Building Societies;
- ▶ Insurance;
- ▶ Financial Intermediation; and
- ▶ Accountancy.

Additionally, the industry has two important cross-sector operations in call centres and Independent Financial Advisors (IFAs). The Financial Services industry attracts a significant proportion of UK graduates and has prospered through its ability to recruit and retain the brightest and the best at most levels of the sector and in most of its component parts. It is viewed, not unreasonably, as a flagship industry of the UK, able to be flatteringly compared with its global peers.

1.2 Key Drivers in the Industry

It is clear, however, that the industry is currently facing a raft of significant changes across a wide range of areas which have already, and will continue to, fundamentally influence how the sector operates and its position as a leading global player. These factors are multifaceted, dynamic and affect all aspects of the Financial Services sector. Foremost amongst them are:

- ▶ Information, Communication and Technology (ICT) and the impact of the Internet - which is already revolutionising the industry and changing the skills base required to compete in global markets. It also has major implications for training and labour retention strategies as ICT specialists are required beyond the Financial Services sector and are in finite supply. The whole industry has had to adapt to the impact of new technology;
- ▶ Globalisation leading to increased competition - companies are now competing more than ever on a global basis which has starkly increased the intensity of competition. As a result this is "weeding out" the strong performing companies which flourish from the weaker ones which do not. The impact on jobs and skills needs is obvious and places an even greater emphasis than previously on recruitment, retention and training of key staff whose contribution will make a difference;

1. Employment in Financial Services is concentrated in jobs that are non-manual and either intermediate and high status jobs (SOC Major Groups 1-3) or clerical and secretarial (SOC Major Group 4).

- ▶ Regulation is a key feature of the industry which has continued to bite hard in the UK and has tightened the need for technically correct and competent selling and delivery of financial services and products. This has influenced companies training needs and directly impacted on their ability to perform and indeed survive;
- ▶ Increasing focus on client driven rather than product driven services which is associated with ICT and the newly emerged call centres' ability to access clients so directly and personally.

Looking specifically at the accountancy sector, technology will have a significant impact on the way it processes its data and information. Traditional skills, such as book-keeping and reconciliation, will be carried out automatically. Higher skills will be needed to assess and interpret the outcomes of the accountancy processes. Risk assessment and exception and trend reporting will become much more important. Regulation and compliance knowledge and skills will be far more important to cope with globalisation and to prevent some of the problems that have arisen in various organisations, particularly in the financial services area over the last few years. The accountancy sector is going to have to cope with the changing scope of reporting which will include such areas as ethics and human capital.

For each element of the Financial Services sector (see page 7 for a fuller explanation), the implications are that:

- ▶ **Wholesale** is likely to remain largely autonomous and, at least in the medium term, is unlikely to raise any concerns about skills gaps or mismatches apart from those associated with ICT. It will deal with the latter through aggressive pricing;
- ▶ **Retail** will experience further significant changes with potential job losses within direct sales and amongst sole trader IFAs and tied agents but with increases in employment for both ICT specialists/operators and Call Centres. This will demand input from an increasingly competitive pool of labour as the generic skills requirements (eg communication skills) will become more standardised. Additionally, greater demand for managerial skills is likely as the sector begins to see the effect of a previous over-zealous shakeout;
- ▶ **Support Services** are likely to remain largely unaffected beyond the normal competition issues although SMEs will find it more difficult to cope with meeting cost pressures and the need to harness ICT as part of a more knowledge-driven sector.

1.3 Impact on Skills Development

There are other factors at work but none are having more impact on the way in which the Financial Services sector is currently changing than these. The industry today is almost unrecognisable from that of twenty years ago and, not surprisingly, jobs have been lost, new **and** different skills are required. Some skills gaps and shortages have emerged although, relative to other industries, these difficulties are small. The Call Centre phenomenon has seen the sector diversify in a significant way for the first time. It also arguably presents the most significant future skills and training issues facing the industry alongside the changing role of the IFAs.

Particular future skills requirements include IT specialists, software designers and programmers and general management skills as well as softer communication skills

aimed at improving client interface. Communication and related generic skills are viewed as a major issue not only for the future but as one currently affecting employees in many companies. Therein lies the tension between the current extensive accreditation system underpinning standards in the sector and the changing future needs of the market. The reality on the ground suggests that regulation, and in turn, accreditation, will take precedence over market needs.

Employment is forecast to grow in some sectors although in reality it is most likely to consolidate. The forecasts also suggest that, where employment grows, it is likely to be amongst female workers although responses from employers do not particularly support this projected trend. Experience remains a very important factor in recruitment practices. However, some parts of Financial Services appear to be changing the age profile of their workforce. The need for young and adaptable employees who can take rapid change in their stride, is a major contrast from how the industry used to be. A particularly significant trend is the growth in employment numbers in Call Centres which have emerged from the mid 1990's as the key growth area for the sector. This has introduced much higher demand for new softer skill requirements (and greater opportunities for employment outside of London). They also pose a significant challenge in that they have bred a new generation of mobile and flexible workers whose loyalty to their employer cannot be taken for granted. Retention of key staff is a major issue and given that much Call Centre activity sits outside the accreditation system from a training and standards perspective, they are proving a major challenge to employers' training and retention strategies. Inevitably there are regional variations in the recruitment and retention patterns of Call Centres, although there are increasing cost pressures and capacity constraints which are affecting most regions of the UK.

As employment profiles change in response to the market, there is a clear feeling that the accreditation system is struggling to keep pace with the dynamics and demand of the market where competency and flexibility are viewed as the key future skill requirements. Conversely, the accreditation system is seen as providing a degree of comfort to businesses in maintaining standards against tighter regulation. This is perceived as a tension in the current training framework.

Particular skills gaps likely to persist in the future include ICT specialists, although it is likely that the industry's ability to pay well will resolve any serious impact this might otherwise have. Call Centres are also likely to develop in such a way as to expose skills gaps, particularly around the lack of industry-wide career development for Call Centre roles and related teleworking. IFAs are a part of the industry whose future is somewhat uncertain. Advice and direct sales will still be required but current developments in the market, such as Stakeholder Pensions, suggest that margins are low and survival will be difficult for some smaller IFA practices. Further, significant losses in the wider industry sales force will substantially reduce an important source of skills and experience to the IFA profession from where it has traditionally recruited. With no definitive substitute source of skills nor a career development path to support new entrants, the profession requires a fundamental rethink of its long term HR strategies. There is also a degree of uncertainty with regards to the supply of female employees given the strong demand expected in this area. These specific issues aside, the evidence suggests that the sector should be able to secure a sufficient number of people with the requisite skills to support the industry in the future.

1.4 Public Sector Role

There remains, however, a strong feeling that, despite the dynamism in and around the Financial Services sector and the fundamental changes it has undergone and still

faces, the industry shows signs of complacency. The question remains whether the industry can instigate the type of HR changes the market is dictating if it is to remain competitive. Whether it can or not, the industry currently sees little (if no) role for the public sector. For a number of reasons, it is dislocated from the public sector support infrastructure such as the Regional Development Agencies, the Learning and Skills Councils, the education sector and DfES itself as well as other Government departments. The industry therefore regards itself as autonomous. This is in contrast to other industry sectors which have a long and productive track record of interaction with the same training and skills development agencies. Put succinctly, the Financial Services sector has hardly perceived any tangible benefits from a previous relationship with the public sector on the basis that it has traditionally preferred to broker its own solutions in the area of training and skills development. Further, the asymmetry between the pace of change in Financial Services and the responsiveness of public sector support suggests that this may be a difficult gap to bridge.

1.5 Conclusion

However, given that there is some tension between current and expected demand and the framework for delivering a supply of skills to the rapidly changing market, **the creation of the FSNTO and its Workforce Development Plan, offers an opportunity to create a role for the public sector in helping to deliver training solutions around some of the future key skills needs.** Given that the sector will need to meet a net overall demand of 1.78 million people over the next ten years or so, there are significant challenges ahead for the industry. There is therefore scope for training organisations, set up to support the sector, to fulfil a useful and constructive role in spite of the dislocation that currently exists between the industry and the public sector. In terms of what role the public sector should play in brokering **partnership opportunities** between the industry and relevant public sector organisations capable of responding to the demands of the sector would appear important. As part of this process, **communication** should be supported across the industry to engage partners in meaningful collaboration to address skills and training issues. The FSNTO should play a key role in this respect. **More specific areas where the public sector can help relate to emerging skill shortage areas and gaps (eg ICT skills), lifelong learning and targeted support for Call Centres and Independent Financial Advisors.** For a summary analysis of the Financial Services Skills Dialogue please refer to *table A* below.

Table A: Skills Dialogue - Summary Analysis

	Banking & Finance / Insurance (Retail)	Professional Services - Accountancy (Support Services)	Professional Services - Financial Intermediation (Wholesale)
Industry Drivers			
Globalisation	✓	✓	✓✓✓
Regulation	✓✓✓	✓✓	✓✓
ICT	✓✓✓	✓✓✓	✓✓✓
Competition	✓✓✓	✓✓✓	✓✓✓
Consolidation	✓✓✓	✓	✓✓✓

Client vs Product	✓✓✓	✓✓	✓✓
Polarisation	✓✓✓	✓	✓
Real Time Innovation	✓	✓✓✓	✓✓✓
Demographics	✓✓✓	✓	✓✓
Demand and Supply Issues			
Demand Issues	✓✓✓	✓✓	✓✓
Supply Issues	✓	✓	✓
Skills Requirements: Generic	✓✓✓	✓✓	✓✓
Skills Requirements: Vocational	✓✓	✓✓✓	✓✓
Skills Requirements: ICT user	✓✓✓	✓✓✓	✓✓✓
Skills Requirements: ICT specialist	✓✓✓	✓✓	✓✓
Skill Requirements: Experience	✓✓✓	✓✓✓	✓✓
Skills Requirements: Other (eg business awareness, leadership)	✓✓	✓✓	✓✓✓
Skill Shortage / Gap Issues			
Skill Shortages	✓✓	✓	✓
Skill Gaps	✓✓	✓	✓
Skills Requirements: Generic	✓✓✓	✓✓	✓✓
Skills Requirements: Vocational	✓✓	✓	✓
Skills Requirements: ICT	✓✓	✓	✓
Skills Requirements: Other (eg business awareness, leadership)	✓✓	✓✓	✓✓
Public Sector Role			
Public Sector Opportunities	✓✓	✓✓	✓
Partnership activity	✓✓✓	✓✓	✓
Communication	✓✓	✓✓	✓✓
Skills Development (ie Call Centre , IFA etc)	✓✓	✓✓	✓
Lifelong Learning	✓✓	✓✓	✓✓
Key	✓✓✓ = Very Significant	✓✓ = Significant	✓ = Some Significance

2 Introduction

2.1 Background

This report, commissioned by the Department for Education and Skills (DfES) in partnership with the NTOs and produced by KPMG², is the result of the Skills Dialogue covering the Financial Services sector. It is one of a series of 16 sectoral skills assessments being undertaken biennially. The Skills Dialogues are a product of the second Skills Task Force Report "Delivering Skills For All" which identified a failure in the labour market intelligence system to make full use of relevant industry based information that would help focus skills provision in the market place. The Task Force identified that the best means of addressing this problem was to draw together relevant information from the National Training Organisations (NTOs) through the Skills Foresight work and associated national research from DfES alongside other information about or from the industry. A Dialogue would then take place between the key parties on future skills implications.

The objective of the Dialogues, therefore, is to engage all relevant players in the specific industry to discuss current and future skills issues, aiding planning and providing information to a host of strategic bodies with responsibilities for supporting workforce skills. In this regard, the Government, through DfES, is the link in the Dialogue between strategic bodies supplying the market including for example higher and further education establishments, the Regional Development Agencies (RDAs), the Learning and Skills Councils (LSCs), the Career Services on the one hand and the NTO and its respective industry on the other.

This report aspires to provide a high quality synthesis of the key skills issues facing the Financial Services sector which can and should guide policies to support the sector where appropriate.

2.2 Approach

It is important to provide some background of the particular approach that was adopted for this Dialogue which has not been entirely consistent with previous Dialogues.

Strategic and operational changes in the market prompted the amalgamation of two previous NTOs³ supporting the Financial Services industry into one overall Financial Services National Training Organisation (FSNTO). The reorganisation also involved an enhancement of the FSNTO role to include the Investment industries and Financial Intermediation⁴. The new FSNTO was being reorganised at the outset of the Financial Services Dialogue. At the same time the Accountancy NTO was also in the process of reorganisation⁵. The timing of the change was such that the Dialogue process

2 KPMG reserves a full disclaimer for actions taken as a result of this report and therefore cannot be held liable for those actions.

3 The two NTOs included the Banks and Building Societies NTO and the Insurance and Related Financial Services NTO.

4 SIC (92) Group 67 which is part of the Wholesale business within Financial Services (see *Table 2* below).

5 Reorganisation of the Accountancy NTO significantly limited input into the Dialogue process from this part of the Financial Services.

provided an opportunity for the new FSNTO to engage key employers in the sector. On the one hand, this would facilitate industry discussions of emerging Skills Dialogue issues whilst at the same time supporting their contribution to the development of the FSNTOs Workforce Development Plans (WDP). A Dialogue Implementation Group (DIG) was established to control the process incorporating key interested parties from the public sector as well as the FSNTO and the Accountancy NTO. The actual approach is shown in *table 1* below.

Table 1: Approach

Approach stages	Activity
1. Set-up Phase	Discussions with DfES concerning the overall approach including the implications of NTO reorganisations.
2. Strategic Consultations	Discussions with a wide range of Financial Services related organisations ⁶ (see Appendix 1) on workforce and skills development issues and references to relevant industry skills reports/reviews.
3. Desktop Analysis	Analysis of DfES survey data and forecasts alongside a review of existing reports on the sector and inputs from the strategic consultations.
4. Draft Report	First draft report presented to the Dialogue Implementation Group.
5. Employer Consultations - Workforce Development Plan and Financial Services Dialogue	Consultations held with 10 industry groups representing (see Appendix 1) the sector covering issues associated with the early results from the Dialogue and issues emerging for the FSNTOs WDP.
6. Second Draft Report	Second draft report presented to the Dialogue Implementation Group and preparation for a National Seminar.
7. National Seminar	Joint presentation by KPMG and FSNTO of the Dialogue results and implications for the FSNTOs WDP.
8. Final Report	This report is the final iteration of the Dialogue process covering feedback from the National Seminar and direct comments on the second draft report.

Source: KPMG 2001

6 This covered over 50 consultations.

2.2.1 Definitional issues

Table 2 shows the main industries covered by this particular Dialogue. Included in the definition is an industry classification of the Financial Services sub-sectors.

Table 2: Definition of the Financial Services Sector

Sector Grouping - SIC (92) based	Principal Activities	Industry classification
Banking & Finance SIC (92) - Group 65	Central banking Banks Building societies Other financial intermediation (leasing, credit granting, investment trusts, venture capital)	Retail (including Call Centres and IFAs / tied agents)
Insurance SIC (92) - Group 66	Life insurance Pension funding Non-life insurance	Retail (including Call Centres and IFAs / tied agents)
Professional Services (Financial Intermediation) SIC (92) - Group 67	Administration of financial markets Security broking Fund management Lloyd's - agents and underwriters	Wholesale
Professional Services (Accountancy) SIC (92) - Group 74.1	Accounting Auditing and related	Support Services

Source: Office of National Statistics / KPMG 2001

In reporting terms, whilst details below will invariably be associated with the SIC (92) classification, the sector sees itself as having three constituencies - Support Services, Retail (to consumers) and Wholesale (to business). The relationship between the SIC (92) and industry classifications is shown in *table 2* above. For the purposes of this report, the sector is referred to primarily in terms of the SIC (92) definitions of Banking & Finance, Insurance and Professional Services. There will be references also to Retail, Wholesale and Support Services.

A second important issue is that some might argue that this Dialogue should not include Support Services as part of the Financial Sector. The sector is extremely heterogeneous making it very difficult to generalise. For the employer consultations, circumstances dictated that 10 groups or types of employers were convened to represent the Financial Services sector⁷. It would be inappropriate to cover each and every one of these groups in detail although clearly the consultation process also did not cover the full breadth of sub-sectors associated with the Dialogue.

2.2.2 Conclusion

Whilst the process underpinning this report has been as comprehensive as possible, it needs to be recognised that the approach is not flawless. This is largely due to the fact that there is only limited data which allows for a proper quantified assessment of skills needs and supply issues in the various Financial Services sub-sectors.

Finally, this is a starting point for the Dialogue. Results from this work are necessarily embryonic and need to be treated as such. This Dialogue has however been important in engaging the sector and identifying the issues which will provide strategic guidance for intervention in the Financial Services sector for those who require it.

The report continues with five chapters covering the following:

- ▶ Chapter 3 - Background;
- ▶ Chapter 4 - Skills Demand;
- ▶ Chapter 5 - Skills Supply;
- ▶ Chapter 6 - Skills Mismatch or Gaps;
- ▶ Chapter 7 - Conclusions.

7 The employer consultations were held with the following groups: Northern Ireland, General Insurance, Building Societies, Scotland, Pensions, Banks, Life Office, Independent Financial Advisors, Wales and Investments and securities.

3 Background

The following section discusses the context for the Financial Services sector and how it is likely to change significantly over the next ten years or so. It focuses on the key industry drivers associated with the sector and their potential labour market implications. Importantly, there are many challenges facing the industry in the UK and skills development is at the heart of them.

3.1 Key Industry Drivers

3.1.1 Introduction

This is a significant sector in the UK, employing over 2.4 million⁸ people and contributing over £93bn to the UK's GDP. It is also a strategically important sector for the UK more generally. London in particular is seen as one of the leading financial regions in the world. One of the industry's key characteristics is its historical *detachment* from the public sector. A characteristic that was universally confirmed during the various employer consultations conducted as part of this Dialogue, which has implications for future public sector support. There is an undoubted ambivalence within the industry about the importance of developing skills in order to maintain competitiveness and in particular the role that the public sector can play in this respect. Parts of the sector are elitist and have had little exposure to skill problems. Some of the sub-sectors appear particularly aloof; skill problems are removed through paying higher wages⁹. Whilst this has a short-term cost implication, it would appear that the sector is fairly relaxed about the prospect of higher costs for high level skills. Set against increasing competition and cost pressures, it is questionable how long this type of policy can be maintained.

Trends in the market are likely to force parts of the Financial Services sector to access skills from more traditional sources, not necessarily "dumbing down", but taking a broader base of skills. If the Financial Services sector maintains its detached position, some companies may struggle to meet the changing needs of the market given that competition for these skills is fierce from all parts of the economy. The public sector may be in a position to offer support but the industry for a number of reasons hardly engages the public sector at present.

3.1.2 Macroeconomic context

The macroeconomic context for the Financial Services is particularly important given the industry's integration across all sectors of the economy - business, consumers and government. In this respect, the UK economy is forecast to perform reasonably positively with economic growth projected to reduce from 2.9% currently to 2.5% in the medium term. Prospects for the Financial Services sector are therefore broadly favourable, notwithstanding worries about the slowdown of the US economy which would inevitably impact on the UK.

⁸ See Chapter 4 for the precise definition of the sector.

⁹ This is market clearing in its purest form - limited skills shortages and using the price mechanism to equate demand and supply.

3.1.3 Regulation

There is little doubt that regulation has played an important role in the Financial Services sector and this is expected to continue. On the Retail side, the problems of the 1990s through the pensions mis-selling produced a strong response from the regulator. Some in the industry believe this was an over-reaction, although the Regulator has regularly consulted with the industry itself on its proposals in an attempt to ensure fair play on all sides. Alongside the continuous review procedures, human resource development (HRD) issues (eg key performance measures) and transparency, the implications of the CAT standards (see Glossary) and stakeholder pensions¹⁰ are expected to impact negatively on the industry in terms of jobs. These would include the sole trading IFAs, many tied agents and consolidation in the business generally. A report in the Financial Times (9th April 2001) highlighted the fact that only six life offices are capable of dealing with stakeholder pensions out of between 30-40 current players in this market. KPMG¹¹ has estimated that up to 80% of administration costs will need to be removed from the service to remain active in the pensions market. This can only be done through automation or, more likely, through wider use of ICT. The skill mix in the sector as a whole therefore is expected to change in line with the developments in the market promoted by regulation.

The regulator has been active within Wholesale in ensuring the integrity of the business following the collapse of Barings Bank. Since this is now a global market, however, the restrictions within the UK may be counter-productive as the level of regulation reduces elsewhere. Depending on attitudes to risk, this may prove to be a significant issue for the UK and London in particular.

What has been significant about the regulator's role in both the Wholesale and Retail markets is that historically it has been reactive. However, the current regime appears to be far more proactive and this is causing some discomfort to the sector especially where there is uncertainty over future policy. As already noted however, it seeks to achieve policy consensus through consultation with the industry.

3.1.4 Information and Communication Technology

ICT is clearly a key driver across almost every sector in the economy and nowhere more than Financial Services. This must be a key consideration for the future of the sector in retaining its market position both locally and globally. Anticipating and securing future skills requirements could pay huge dividends. The stakeholder pension provides a good example in this respect. Capping the administrative costs of pensions is expected to displace some of the IFAs and agents from the 'one-to-one' advisory role in the market. At the same time, the pensions market is increasingly moving away from state provision. ICT via telephone or Internet is expected to play an increasingly important role in filling the void that is likely to emerge from this situation - at least in terms of bringing products to market.

As is discussed elsewhere in this report, the Financial Services sector has seen a dramatic growth in the use of ICT tools to sell and deliver the industry's products, most obviously manifested in the booming growth of Call Centres and Internet accessed services.

¹⁰ Government requirement that all companies with 5 or more employees have to provide access to stakeholder pension (unless existing provision exists). Charges are capped at 1% of fund which significantly lowers the margins on these products.

¹¹ Financial Services in 2020 (KPMG 1999).

3.1.5 Globalisation

Globalisation is particularly relevant to the Financial Services sector. Even so, we cannot generalise about the sector as a whole since there are timing issues which distinguish the impact of globalisation between the Retail and Wholesale sub-sectors¹² of the industry.

3.1.5.1 Wholesale

The Wholesale market is already truly global; therefore, the key issue for the UK is London's continued lead role within this important market. Where money was previously invested through a product or directly, more often than not the money would have been administered or managed by an individual based in London or possibly Edinburgh. Nowadays, this need not be the case - the fund could be managed from any location. A key driver in this development will be cost hence the growing competition for business. Where costs are marginally higher, returns must be relatively higher - the latter is highly dependent on the skills and, increasingly, the technology in place to support the value chain.

London plays a pivotal role as an international financial centre that impacts both directly and indirectly on the prosperity of the economy as a whole. It is therefore not surprising that the Government's approach to the European Central Bank and European Union (EU) integration has been cautious. It has been suggested elsewhere¹³ that London is maintaining its competitive edge within a global market for Wholesale services - its track record and therefore wealth of skills and knowledge is providing the value added at the margin. However, the scale and rate of change could alter this position very quickly indeed.

ICT is already a major driver of change in this part of the Financial Services sector with 24 hour dealing and changing interface as it becomes more directly accessible to corporates and individuals alike. This is translated within the market through greater competition, cross-border consolidation of companies and potentially greater uncertainty. Within such a market, the Wholesale sector will need to keep ahead of the competition which will increasingly require the very best in terms of both globally competitive skills and innovation. In this respect, the UK Financial Services sector will need to be particularly conscious of the threat posed by competition from the US.

3.1.5.2 Retail

Globalisation in the Retail market is still some distance away but is on the horizon. Whilst the EU has moved to break down national barriers, there are still local barriers which are likely to limit access to national markets in the medium term. The UK is as regulated as anywhere in Europe, providing greater assurance to the British public of the products and services at large; but on the other it acts as a barrier to entry which limits competition. Consequently, the Retail sector is expected to be concentrated within national boundaries for the foreseeable future. However, as in the Wholesale

12 We would note here that this is not a factor which particularly affects the Support Services sector other than where some of the dynamics in the market - especially mergers and acquisition - remove the need for particular services.

13 See for example '*Competitiveness of London's Financial and Business Services Sector*' - Centre for Economics and Business Research (1999).

sector, ICT is changing the face of both the service and the product. Increased accessibility through 'e'-finance and telephone banking suggests that competition is going to intensify even within national boundaries; we can therefore expect further consolidation in this sector.

3.1.6 Client versus Product

One of the major consequences of the ICT revolution within Financial Services has been the need to focus on a client needs strategy rather than a product-led one. A particularly important development will be the trade-off between effectiveness, efficiency and marketing on the one hand and brand loyalty on the other. Any organisation failing to satisfy its customers will not survive in this new customer-driven market.

Somewhat contradicting the impact of ICT on the future provision of advice is the strong belief in the market that the need for advice will grow despite the arrival of the stakeholder pension. This implies that ICT is not a full substitute for the more traditional methods of selling products especially where client focus is becoming so important. The key issue is who will provide that advice. It would seem that much depends upon the role of the IFA network.

3.1.7 Competition, Disintermediation and Consolidation

The impact of competition and a focus on cutting costs are likely to result in further consolidation in the sector, principally through mergers and acquisitions (M&A). Predictions in the *Foresight Report*¹⁴ confirm this. We are therefore likely to see major global financial institutions emerging alongside smaller niche players. Job losses are also likely to feature as part of the agglomeration economies sought through M&A.

Another feature of the developing market will be ease of entry and exit by companies and a growing emphasis on branding to attract and keep customers. Information, knowledge and marketing continue to be important and growing features of the sector in this respect. Some of the new, heavily branded entrants (eg Sainsbury and Tesco) are strong in this area having operated in an oligopolistic market and are therefore expected to feature within the emerging stakeholder market.

3.1.8 Polarisation

Developments in the market, especially those associated with the potential impact of stakeholder pensions, have signalled that the market will become polarised between those accessing basic pension products and those seeking more customised, high value provision. Essentially, the stakeholder and CAT requirements provide little incentive for significant parts of the market - a 1% cap on the administrative costs will limit the incentive amongst the small pension providers since profit will be dependent on generating high volumes of business. As noted above, branding will be key to success. At the other end of the market the focus will be on customising products to client specifications, essentially responding to the client-buying focus rather than product-selling. This will still mean value for money but greater returns traded against greater risk. The clients for the two types of product levels will differ, as will be the skills the industry will require to deal with them. At the lower end, fairly unsophisticated methods will be required, associated primarily with telephone or Call Centre interface. The customised market may also be accessible through the same

14 Government sponsored cross-sectoral reports reviewing medium to long term prospects of industries.

routes but will require higher levels of technical knowledge as well as, potentially, a less mechanistic approach. In both cases, ICT will play an important role as will the provision of advice.

3.1.9 Real Time and Innovation

This is a particular feature of Support Services although it is also relevant for the Wholesale business. As competition intensifies then the premium prices charged within these sectors may come under pressure. In which case, innovation across service provision will be important in driving the sector forward. This will require increasingly high skill levels. ICT will once again have a major impact in this area. A growing focus on developing real time assurance and related services within the Support Services sector and new products and developments within Retail and Wholesale will be required. Delivering more up-to-date information to the client will therefore introduce more dynamic decision-making in the market.

3.1.10 Demographics

Projections clearly indicate a strong trend towards an ageing population. This, coupled with the Government's push towards private pension provision, is thought to be a key market opportunity for the sector. The Investment group employer consultation was particularly upbeat in its positive expectations for the market.

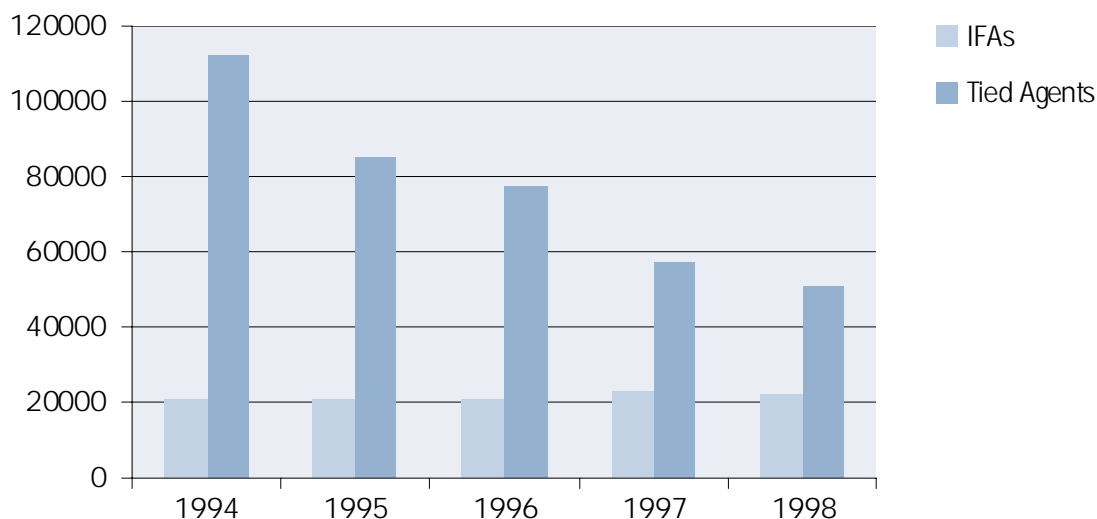
3.2 IFAs, Tied Agents and Call Centres

IFAs, Tied Agents and Call Centres cut across all aspects of the industry and it is therefore important to consider each of these separately.

3.2.1 IFAs and Tied Agents

IFAs are professional *independent* advisers of financial products, distinct from tied agents or advisors who are essentially commissioned sales people of corporate products. Whilst the motivation to sell is characteristic to both types of advisors, the principles underpinning the role of the IFA are vastly different to say a tied agent. In many cases the IFA will be salaried and possibly networked to a parent company accountable to the regulatory body. Even the local high-street IFA must conform to the standards laid down by the professional body. The tied agent is almost always commission-based and until the miss-selling problems were highlighted, was not subject to rigorous standards of training and qualifications.

Whilst this position has clearly changed, it has done so more through substantial job losses rather than by increasing the competence and qualifications of the advisors - although there have been changes or improvements in this regard also. However, IFAs have always seen themselves as a different and more accredited profession compared with the tied agent. This has been reflected in the number employed in this sector following regulatory changes in the market. The number of IFAs has remained remarkably constant throughout the period of change since 1994, whilst there have been huge losses within the tied agent market. *Figure 1* below illustrates these trends.

Figure 1: Trends in IFAs/Tied Agents, 1994-98

Source: ABI/AUTIF

Total employment has dropped by 45% since 1994, all of which is accounted for through losses in the tied sector. Further losses are expected following the introduction of the stakeholder pension. It is unclear whether this will impact wholly on the tied sector and the degree to which demand for independent advice will be sustained (or even increase). IFAs are expected to specialise further and consolidate within the corporate market. However, the 'one to one' provision is likely to go - the cost of regulation will not be sustainable and therefore unless the local IFA is very organised, there is likely to be consolidation in the IFA sector as well. In this scenario, the role of ICT assumes greater significance. Survival within the IFA profession will be dependent on a number of factors including intake of new skills and training. This will be considered further in Chapter 5 but it is relevant to highlight that IFAs have different issues, as:

- ▶ there is no traditional route into the profession apart from a proven track record in sales; and
- ▶ there is no definitive career development path for workforce development and recruitment but a reliance on other parts of the sector for its skill supply.

3.2.2 Call Centres

One of the key changes that has been taking place within the service sector is the dislocation between the client and provider of the service. ICT in particular has provided the opportunity to develop a new culture of client interface where the traditional face-to-face sales, not only in the Financial Services sector but across the piece, has been replaced by a combination of technology-based solutions. Perhaps the most prolific of these to date has been Call Centres. The scale and extent of this transformation has been remarkable. It is estimated that there are now around 1,200 dedicated Call Centres within the Financial Services sector. Further employment growth of $\frac{1}{4}$ million gross additional jobs in the Call Centre industry over the next eight years suggests that this part of the Financial Services sector has not yet peaked. Significantly, it is a part of the industry which is not dominated by London - most

centres are established across the UK regions. The Call Centre industry within Financial Services is characterised by the following:

- ▶ significant employment numbers in the industry overall;
- ▶ Individual Call Centres usually employ a minimum of 50 people;
- ▶ Skills - it is not a low skill industry although at the sales level there are certain operational guidelines within which staff must operate. Whilst this might appear to require limited abilities, in reality the picture is not so straightforward. Generic skills requirements (eg customer care/handling, communication skills) are high, as are, for example, product knowledge and linguistic dexterity. This explains why the demand for skills can involve attracting graduates to the industry;
- ▶ young people - it is also thought to be an industry for young people, especially females. It has also become an attractive occupation for women returners and those seeking part-time work;
- ▶ flexibility - this is a particular requirement of the industry with a need for 24 hour on-line operation. Employees need to have the flexibility to support the function. Multi-tasking is increasingly seen as a key emerging requirement which demonstrates why the industry is delving more into the graduate labour market;
- ▶ peripatetic - perhaps the most important feature of the sector is that it has problems with staff retention. Some employers are reporting up to 40% attrition rate amongst staff as a result of monotony, relatively low pay, unsociable hours and transferable skills. There are already examples in the UK Financial Services sector of businesses looking to other markets for the same skills but at a lower cost (eg India).

In many respects, this part of the Financial Services sector has grown ahead of the industry's ability to understand and absorb it within its existing structures. It is therefore an area that needs to be considered in the context of future planning and development especially outside London. **This might offer a particular opportunity for the various public sector support Agencies to help broker and deliver solutions.**

3.2.3 Conclusion

A wide range of issues are expected to influence the Financial Services sector in the future. The combination of market and regulatory factors means that the picture is somewhat uncertain, especially within parts of the Retail sector. We can however predict that there will be changes! For example, there is clearly a view that 'one-to-one' advice will become a thing of the past - and by implication, employment losses in sales, sole trader IFAs and tied agents may be expected to continue, partly replaced perhaps through wider use of ICT. For the Wholesale sector, globalisation will force further changes especially through mergers and acquisitions. However, this will release a steady flow of skills to the sector; Wholesale therefore perceives itself to be immune to the vagaries of the market. *Table 3* below provides a matrix analysis of the key drivers set against the sub-sectors and presents a basis on which to examine the potential labour market demand and supply side issues.

Table 3: Key Drivers and Significance for the Financial Services sub-sectors

	Professional Services - Financial Intermediation (Wholesale)	Banking & Finance / Insurance (Retail)	Accountancy (Support Services)
Globalisation	✓✓✓	✓	✓
Regulation	✓✓	✓✓✓	✓✓
ICT	✓✓✓	✓✓✓	✓✓✓
Competition	✓✓✓	✓✓✓	✓✓✓
Consolidation	✓✓✓	✓✓✓	✓
Client vs Product	✓✓	✓✓✓	✓✓
Polarisation	✓	✓✓✓	✓
Real Time Innovation	✓✓✓	✓	✓✓✓
Demographics	✓✓	✓✓✓	✓
Key	✓✓✓ = Very Significant	✓✓ = Significant	✓ = Some Significance

Source: KPMG 2001

Chapters 4, 5 and 6 consider both the current and future labour market demand, supply and gap/mismatch issues in the Financial Services sector taking into account the factors already highlighted within this section of the report.

4 Demand for Financial Services Skills

4.1 Introduction

This section reviews the evidence and discusses the issues relating to the demand for skills in Financial Services - including the main employment patterns and trends in the sector, particularly those relating to changing skill requirements and the underlying causes. The main source of data used to support this analysis is DfES's Employers Skills Survey (ESS)¹⁵ as well as data from the research and consultations¹⁶. *Appendix 4* provides statistical tables referred to in the following analysis.

4.2 Definition of Employment in the Financial Services Sector

Total employment within the UK Financial Services sector is estimated at over 2.4 million in 1998. The basis of this estimate is broader than what could normally be described as the UK Financial Services. For Dialogue purposes, the inclusion of Accountancy artificially inflates the size of a strictly defined Financial Services sector¹⁷. Further, quantitative analysis of both Accountancy and Financial Intermediation (refer to *table 1* above) can only be achieved through using a more broadly based Professional Services definition of the industry. The Office of National Statistics defines the Professional Services industry as incorporating the following sub-sectors:

Under the SIC (92) definitions, Professional Services includes the following codes: 67; 73; 74.1-74.4 and incorporates all activities ancillary to financial intermediation, including: administration of financial markets, broking of securities, insurance agents and brokers. R&D on natural sciences, engineering and social sciences etc. Other professional services including legal, accountancy, tax, market research, other consultancy; architects, engineering services, weather forecasting, surveying; technical testing; and advertising.

Over 50% of the Professional Services industry does not relate at all to the Financial Services sector. A more narrowly defined Financial Services sector incorporating Banking and Finance; Insurance; Financial Intermediation; and Accountancy (refer to *table 2* above) employs around 1.7 million people in the UK. Therefore, inferences and conclusions drawn on the basis of information relating to Professional Services need to be treated with caution where these are thought to reflect the Financial Services sector. *Table 4* below shows a sub-sector breakdown of the 2.4 million people currently employed in the industry (see also *Appendix 4*).

15 The ESS consisted of a total of 27,000 interviews, of which 23,000 were conducted by telephone and 4,000 through face-to-face interviews.

16 Generally the results from the ESS survey supports the Dialogue results. However, due to small sampling errors there are some inconsistencies. The evidence from the Dialogue has been the primary source used for the report and ESS has been used to support it.

17 A strictly defined Financial Services sector would exclude Accountancy. Total employment which excluded Accountancy would reduce the size of the Financial Services to around 1.1 million.

Table 4: Employment in UK Financial Services, 1998

Financial Services Sub-Sectors	Employment (million) ¹⁸
Professional Services	1.530
Insurance	0.260
Banking and Finance	0.640
Total	2.430

Source: Cambridge Econometrics, 1999

4.2.1 Mapping the Sector

Given the standard nature of information on the industry and occupations, it is somewhat difficult to link the changes predicted through forecasts and how this actually reflects on the component parts of the industry. *Table 5* below provides a summary mapping of the Financial Services sub-sectors at a general level, the main occupational classifications and the associated jobs or skills associated with those occupations and industries.

Table 5 : Sector and Occupational Mapping of the Financial Services Sector

Industry	Financial Services Industry		
Main Sub-Sectors	Banking and Finance	Insurance	Professional Services
Related Activity	Call Centres /IFAs	Call Centres / IFAs	Accountancy and Financial Intermediation
1.1 Corporate Administrators	Finance Specialists	Insurance / Actuarial	Accountants/Stockbrokers /Fund Managers
1.2 Managers and Proprietors	Finance Specialists	Insurance / Actuarial	Accountants/Stockbrokers /Fund Managers
2.1 Science/Eng Professionals	Finance Specialists	Insurance / Actuarial	Accountants/Stockbrokers /Fund Managers
2.4 Other Professionals	Finance / ICT Specialists	Actuarial / ICT Specialists	Accountants/Stockbrokers / Fund Managers
3.1 Science Associate Prof.	Finance / ICT Specialists	N/A	N/A
3.3 Other Associate Prof.	ICT Specialists	ICT Specialists	ICT / Technical Specialists
4.1 Clerical Occupations	Call Centre operators (ICT users)	Call Centre operators (ICT users)	Support (ICT users)

¹⁸ Figures are rounded.

4.2 Secretarial Occupations	Support (ICT users)	Support (ICT users)	Support (ICT users)
7.1 Buyers Brokers Sales Reps	IFAs / Tied Agents	IFAs / Tied Agents	N/A
7.2 Other Sales Occupations	IFAs / Tied Agents	IFAs / Tied Agents	N/A
9.2 Other Elementary Occupations	Other support	Other support	Other support

Source: KPMG 2001

This is a rather crude framework. It does however show how standard industrial and occupational definitions used for analytical purposes relate to jobs and sectors in Financial Services. So for example, where the analysis refers to clerical and administration occupations in the Banking and Finance sector then this is likely to be associated with Call Centre operators.

4.3 The UK Financial Services Sector

4.3.1 Background

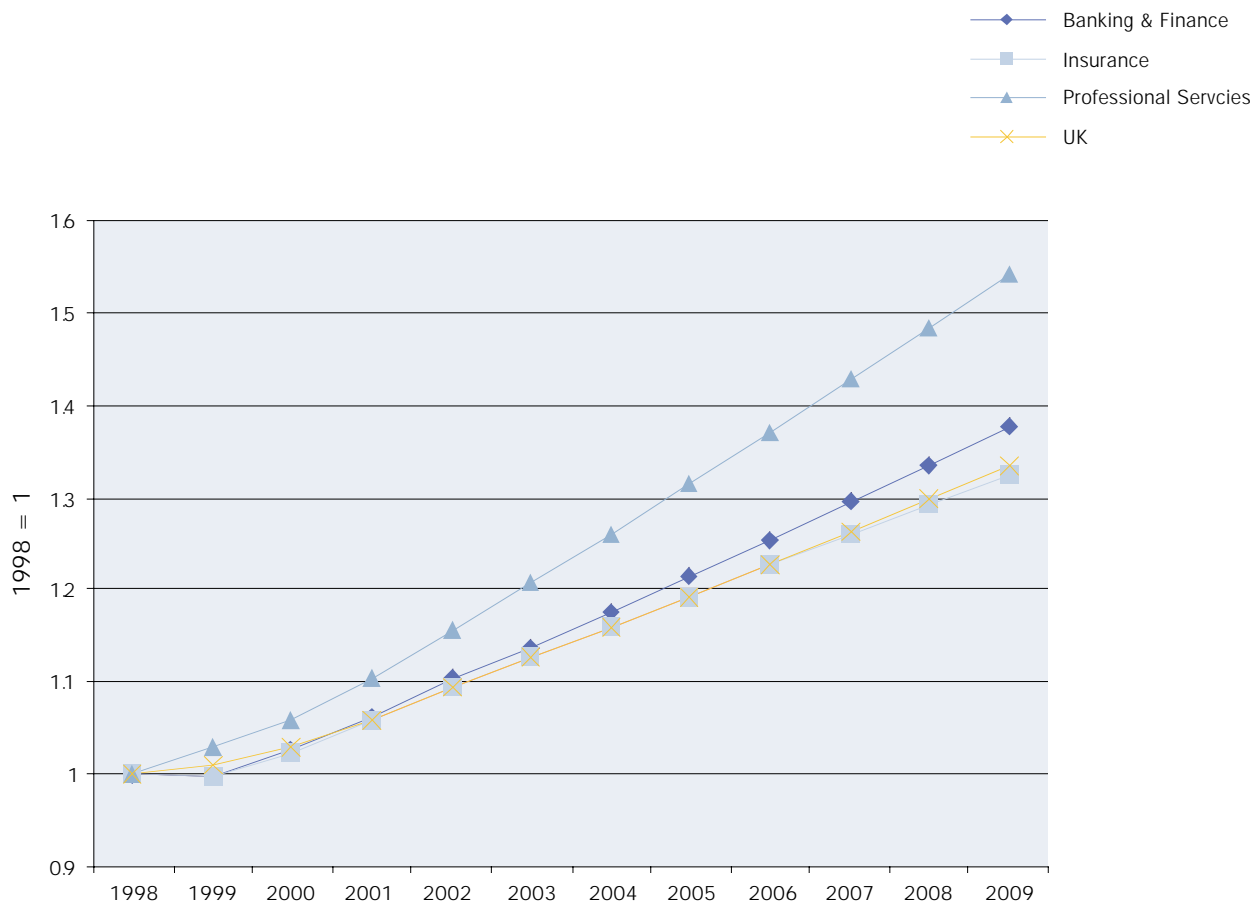
In employment terms, the Financial Services sector in the UK has experienced considerable swings in its fortunes during the last 20 years. For the period 1981-91, employment increased by 26% which was more than double the rate for the UK (11%) during the same period. All relevant Financial Services sub-sectors also experienced growth well above the overall UK average during the same period.

During the most recent decade however, overall employment in the Financial Services sector increased by only 2% compared with an average 4% for the UK as a whole. Whilst employment increased in Professional Services by 7%, both the Banking and Insurance sub-sectors experienced a decline of 6% during the period 1991-98. A key feature of these more recent trends has been a strong focus on productivity growth in the face of growing competition and other drivers in the market noted in *Chapter 3*. Current output (by broad definition - Banking, Insurance and Professional Services) for the sector is £93 billion (1995 prices). This constitutes over 14% of total UK GDP in 1998 with less than 9% of total employment (ie 2.43 million). The key point is that the sector is strong in the UK, contributing far more to wealth than what would normally be expected¹⁹. This can only be achieved through supporting high value activity with efficient services.

Figure 2 below illustrates the trends in output for the Financial Services sub-sectors since the early 1970s and forecasts to 2010. The increases in output since the 1970s in both the Banking and Finance and the Professional Services sub-sectors have been above the UK average and considerably greater than for the Insurance sub-sector since the early 1980s. The forecasts suggest that these trends will continue (see also *Appendix 4*).

¹⁹ The general principle would be that a sector should contribute a share of total value added consistent with its share of total employment.

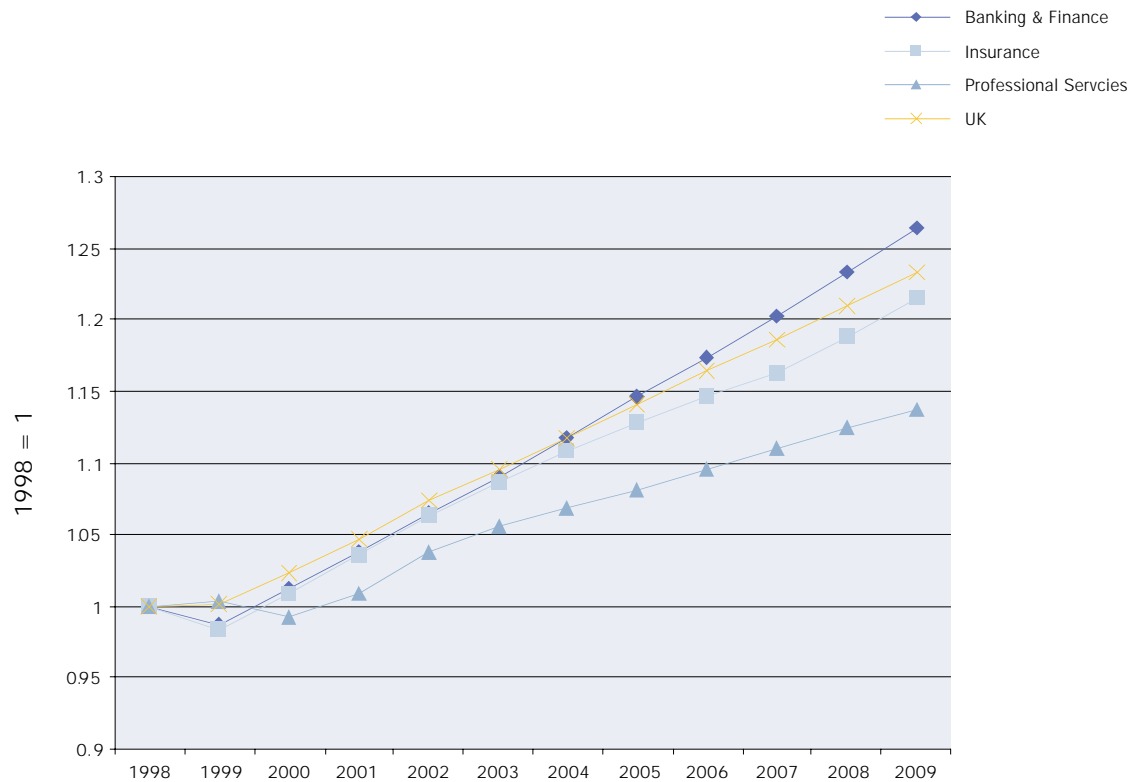
Figure 2: Output trends and projections for the Financial Services sector, 1998 - 2009



Source: *Regional Economic Prospects, Cambridge Econometrics, July 1999*

However, productivity levels across the three main sub-sectors of the Financial Services industry (shown in *figure 3* below) give a different perspective. Employment losses during the early 1990s and weaker recovery since, coincide with strong productivity growth in the Banking & Finance and Insurance sectors. A number of other factors contribute to these trends in terms of the key drivers (ie competition, regulation, ICT etc). Similar to what happened in manufacturing during the 1980s, the shakeout in the Insurance sector - and to a lesser extent Banking - has allowed the sector to re-group for the future. Conversely, strong growth in employment somewhat overwhelms output growth in Professional Services for the foreseeable future.

Figure 3: Productivity trends and projections for the Financial Services sector, 1998 - 2009



Source: *Regional Economic Prospects, Cambridge Econometrics, July 1999*

Recent productivity increases in Banking and Insurance are therefore linked to slow, if not static, employment growth and reasonably strong output growth. Industry drivers already highlighted will reinforce these trends - pressure on productivity and other factors will also contribute to further change in these sectors. The Professional Services sector²⁰ on the other hand is generally more domestically focused. It will therefore not face the same kind of pressures. It is also likely that Banking and Insurance have gone through a more extensive period of transformation than Professional Services.

4.3.2 Regional Employment

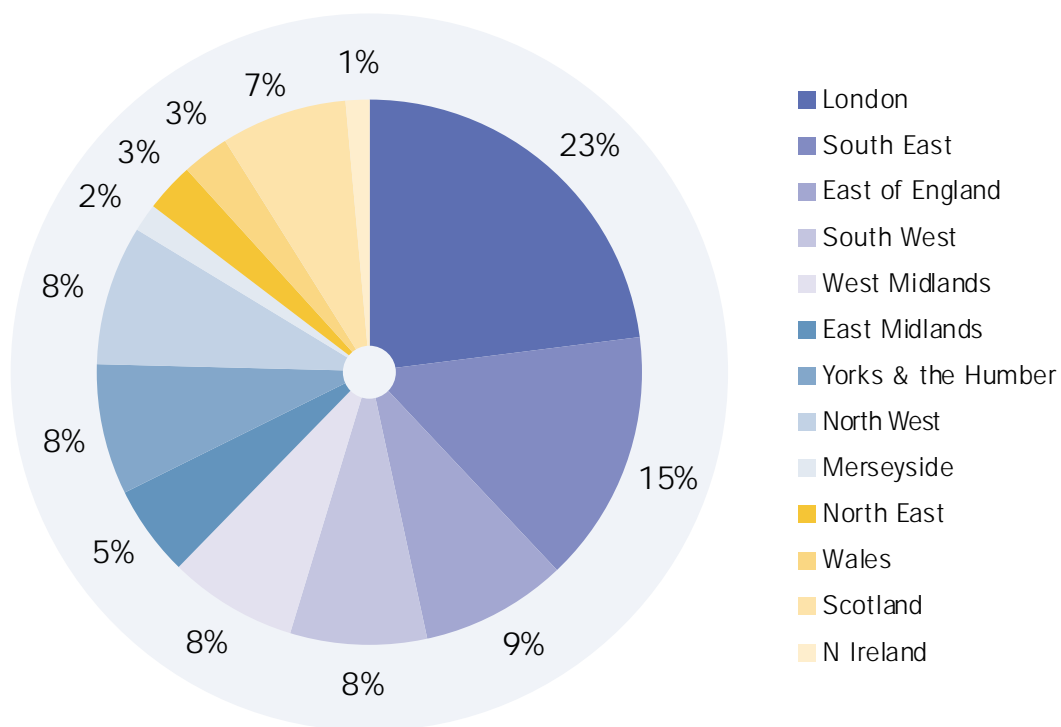
In terms of the geographical distribution of employment, London and the South East are by far the most significant regions in Financial Services (see *Figure 4* below). London accounts for 23% of the total employment²¹ in the UK, with a further 15% employed in the South East of England. There are also clusters of particular regional significance in the South West around Bristol and the North around Leeds. The lowest shares are found in Merseyside, the North East of England, Wales and Northern Ireland. Paradoxically, this does not necessarily reflect less of a problem in terms of skills supply in these areas. Indeed, the recognised concentration of the industry in the South may actually be attracting skills from the regions.

²⁰ Financial Intermediation and Investment excepted

²¹ Note that this refers to Banking and Business Services. Estimated share of total employment in the Financial Services (ie excluding Business Services) within London and the South East is near 50%.

Figure 4: Regional distribution of employment in Financial Services 1998

Regional Employment Distribution in Banking and Business Services (1998)



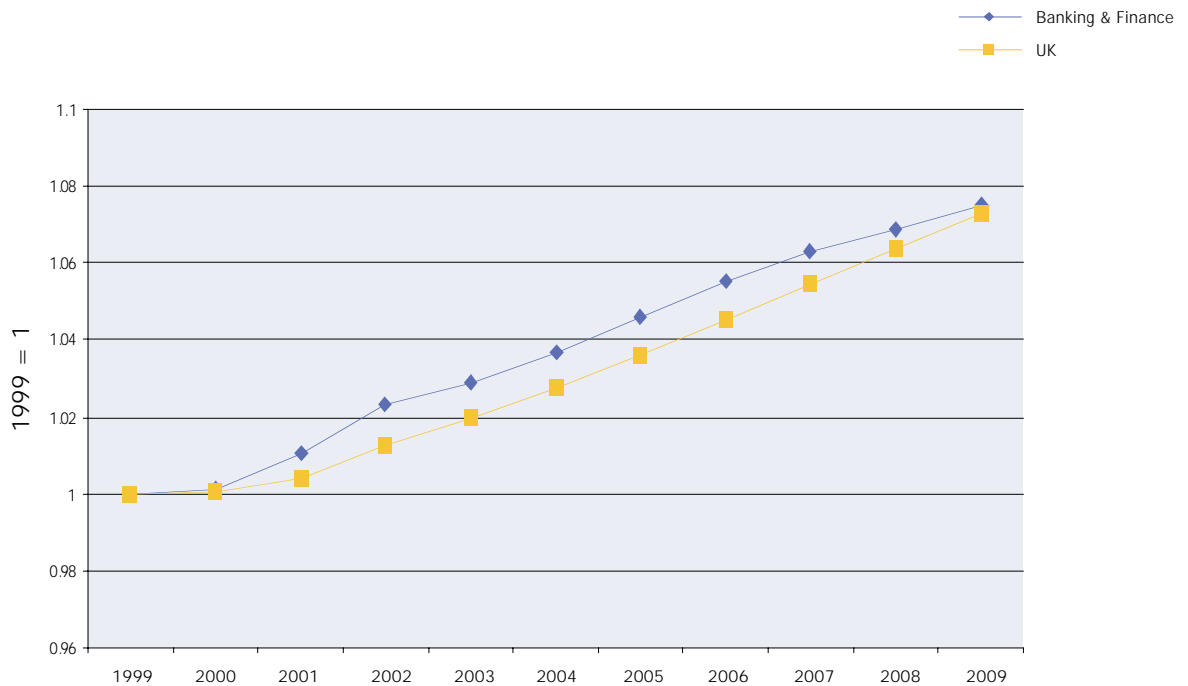
Source: Cambridge Econometrics, July 1999

In London as well as the country as a whole, the employment structure will change proportionally, away from Retail to Wholesale Financial Services²². This in turn may have implications for the future regional distribution of employment. The Wholesale industry is particularly concentrated in London and the South East suggesting that this area is likely to consolidate its position in the UK market. Much of what is described below is therefore heavily influenced by the South. Please refer to *Appendix 8* for a brief summary of the regional characteristics of the industry.

4.4 The UK Banking and Finance Sector

Employment in this sector is estimated at some 644,000 people, 60% of which are female. Following contraction in the 1990s, employment is predicted to rise again over the next few years. *Figure 5* below highlights projected growth trends up to 2009.

22 Rajan and van Eupen, 1998.

Figure 5: Forecast Employment trends in Banking & Finance, 1999- 2009

Source: IER/KPMG 2001

Forecast employment growth between 1998 and 2009 is 9% - roughly the same as the overall growth for the UK over the same period. By 2009, the Banking and Finance sector is therefore expected to employ approximately 700,000 people - an increase of just under 60,000. Roughly 50% of this increase is expected in the clerical and administrative services occupations which is strongly associated with female employment. However, the female share of total employment is expected to remain static over the forecast period. A corollary is that males are expected to take a significant share of higher level occupations. Discussions with employers in this sector appear to raise some doubt as to whether any increase in employment is likely over the medium term. For example, recent announcements of further consolidation in the sector (eg Halifax and the Bank of Scotland) and the possibilities of others (eg Abbey National/Lloyds TSB) suggest significant job losses are likely. Future employment is expected to be characterised by the growing influence of ICT and a focus on customer care. One particular comment from the Dialogue consultations is worth noting:

“with the advent of ICT, there is no brand loyalty. Cost and value for money are important. But the only thing we have to differentiate ourselves with the competition is our customer care and service”.

Employment within the sector tends to be associated with seven key occupations. Table 6 highlights the changes in the proportions of people employed in these occupations. Alongside the increases in clerical & administrative occupations, growth in demand is expected to be primarily in professional (33%), associate professional (24%) and elementary occupations (27%). Key drivers associated with future changes in these occupations are also highlighted.

Table 6: Key trends across the main occupations in the Banking & Finance sector (%)

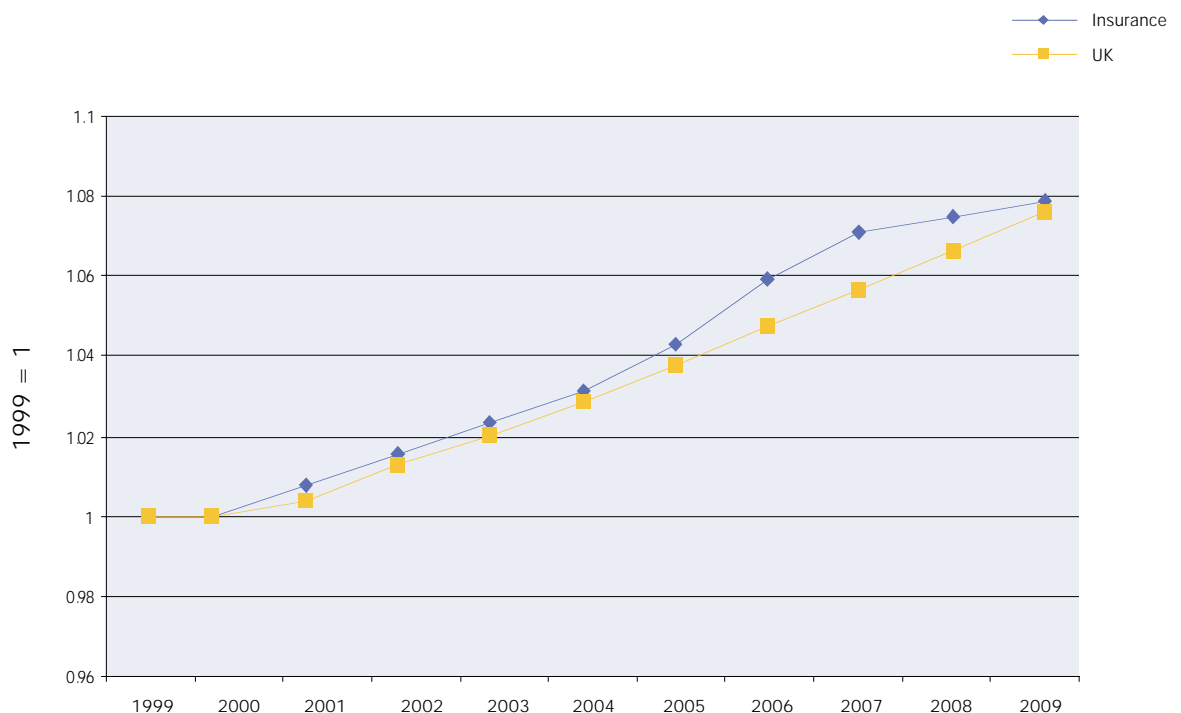
Occupations	1981	1998	2009	Drivers
Corporate managers	6.4	7.9	7.6	Despite a drop in the overall share, employment in this occupation is expected to increase by 5%. The driver is the growing need for dynamic leadership skills in the sector.
Business and public service professionals	1.5	1.9	2.3	Technical content of the work is likely to increase (eg risk management, regulation) alongside the need for specialist ICT skills and customer data management.
Business and public service associate professionals	3.0	4.0	4.6	Technical content of the work is likely to increase (eg risk management, regulation) alongside the need for specialist ICT skills and customer data management.
Administrators and clerical	55.1	53.3	53.3	Centralised customer service functions (ie sales focused Call Centre operators) are expected to continue growing as competition for business intensifies and margins come under pressure.
Secretarial and related	10.8	9.6	8.5	Automated systems driven by ICT decrease the need for secretarial support. Cost-cutting driver also.
Sales	3.1	3.3	3.4	Demand for sales and marketing occupations expected to remain positive - ICT and Call Centres are not regarded as 100% substitutes for 'face-to-face' sales. IFAs expected to play a role in the market.
Elementary clerical and service occupations	5.7	5.6	6.6	Increases in this occupation possibly a by-product of automated systems and reduced secretarial support increasing the need for more basic clerical support (ie replacement demand).

Source: IER/ KPMG 2001

4.5 The UK Insurance Sector

The Insurance sector currently employs over 260,000 people, 49% of which are female. Employment is expected to grow by around 23,500 or 9% between 1998-2009 which is similar to the Banking and Finance sector and about the UK average. By 2009 the sector is expected to employ just under 285,000 people with roughly the current share of male and female employment.

Figure 6: Employment trends in Insurance, 1999-2009



Source: IER/KPMG 2001

Discussions with employers in the industry suggest that employment is likely to decline overall over the next few years as the industry seeks to hold margins and deal with some of the changes in the market such as those related to Stakeholder Pensions. However, it was highlighted that advice in the sector will always be needed. Therefore despite the overwhelming transition to a more ICT based sales and customer care approach, the industry still identified a strong role for IFAs and/or tied agents in the market. Equally, the industry will come under more pressure to up-skill as regulation and competition intensify.

In terms of what this means occupationally for the sector, *Table 7* highlights the changing occupational structure of the UK Insurance sector during the 1981-2009 period and the key drivers associated with these changes. People working in the sector are concentrated across seven key occupations. It appears that demand is expected to increase for corporate managers and professionals in particular over the next 10 years or so.

Table 7: Key trends across the main occupations in the UK Insurance sector (%)

Occupation	1981	1998	2009	Drivers
Corporate managers	8.9	11.5	12.3	Strong business awareness and leadership skills will be required in what is generally becoming a cut-throat market. Over-zealous re-structuring during the last decade is also thought to have undermined this segment of the industry.
Business and public service professionals	2.3	3.1	4.3	Employment within this occupation is expected to increase by 50% over the next 10 years as a result of the growing technical requirement of the business especially the interface between ICT development, risk management and stronger regulation.
Business and public service associate professionals	18.6	18.2	18.1	This is the second largest occupation within the industry. Competition and ICT (especially Intranet and Internet requirements) are driving the demand for more specialist skills (including ICT based). Growing focus on the client also requires more sophisticated data support systems.
Administrators and clerical	31.6	30.3	29.7	Employment in this occupation is expected to increase by around 7% (despite the small drop in overall share) supported mainly through growth in Call Centre or centralised customer care service activity to support changing sales and marketing function away from being product based.
Secretarial and related	10.7	9.2	7.6	Automated systems driven by ICT decrease the need for secretarial support. Cost cutting driver also.

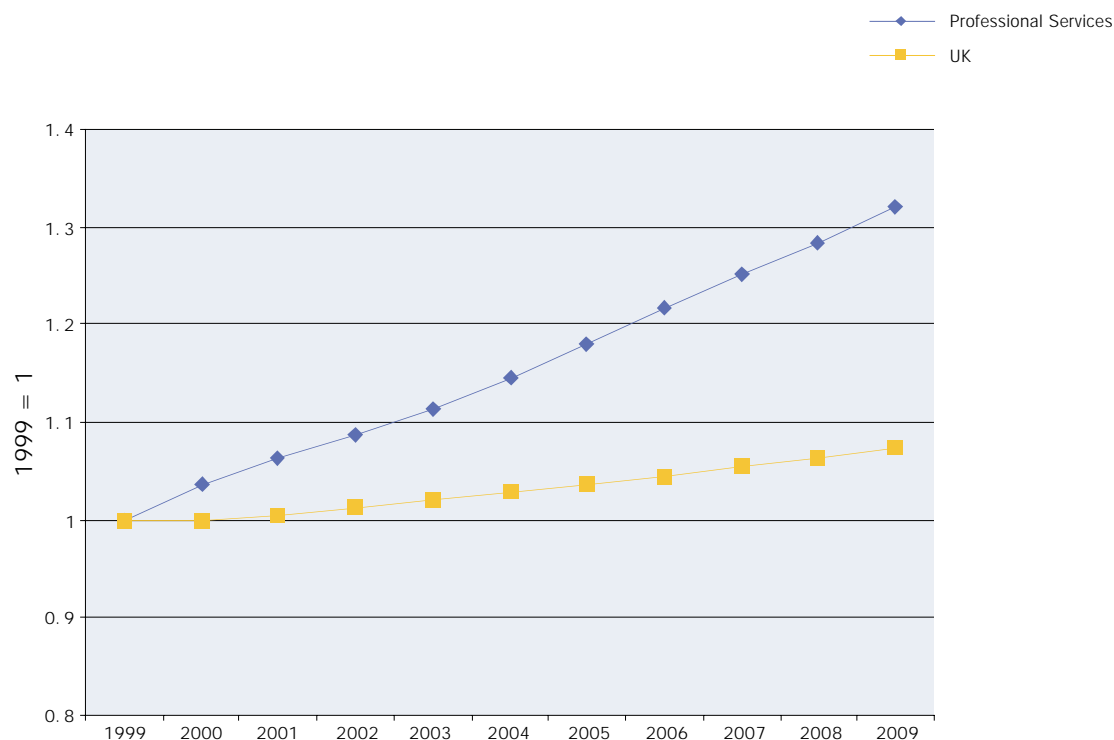
Sales occupations	8.2	8.2	7.9	The number of sales occupations is expected to remain broadly static. Prospects for the IFA profession are positive but tied agents are expected to come under further pressure. The sector will consolidate its sales force as it has done recently due to growing Call Centre facilities and the impact of the Internet becomes more apparent.
Elementary clerical and service occupations	3.8	3.3	3.4	Increases in this occupation possibly a by-product of automated systems and reduced secretarial support increasing the need for more basic clerical support (ie replacement demand).

Source: IER/KPMG 2001

4.6 The UK Professional Services Sector²³

The Professional Services sector has experienced a period of sustained growth throughout the 1980s and 1990s and this is expected to continue. The sector currently employs over 1.5 million people - a significant increase over the 1981 figure of 1.1 million. Employment growth over this period has had a distinct gender bias. Between 1980-1998 female employment in Professional Services increased by over 80%. This compares with 11% for males. Females now make up a 49% share of total employment supported by growth mainly within the administrative and secretarial occupations. *Figure 7* shows forecast employment growth up to 2009.

²³ Note comments above on the definition of the sector. The analysis is based on the ONS definition of professional services. This includes the SIC (92) headings 67, 73, 74.1-74.4 and incorporates all activities ancillary to financial intermediation, including the administration of financial markets, broking of securities, insurance agents and brokers. R&D on natural sciences, engineering and social sciences etc. Other professional services including legal, accountancy, tax, market research, other consultancy; architects, engineering services, weather forecasting, surveying; technical testing; advertising.

Figure 7: Employment trends in Professional Services, 1999-2009

Source: IER/KPMG 2001

Unlike the Banking & Finance and Insurance sectors, employment within Professional Services continued to grow during the 1991-1998 period following a slight dip in performance in the early 1990s. It is forecast to have well above UK average growth over the 1998-2009 period. Total employment is expected to increase by nearly 550,000 (36%) to 2.1 million by 2009. Increases in the share of female employment within Professional Services are expected to continue and forecast to reach 52% of the total by 2009 (refer to *Appendix 4*). It is also interesting to note that the two Financial Services sub-sectors incorporated within Professional Services were also notably more optimistic about the future during the Dialogue process. This appears to support these results.

The occupational make-up of the Professional Services sector is, however, similar to that for the Banking & Finance and Insurance sectors. Employment is broadly concentrated in seven occupational groups as shown in *table 8* below. That said, the analysis in *Chapter 3* highlights that industry drivers differ in the way they affect this sector. Professional Services as designated Support Services appear to have three key drivers - regulation, ICT and innovation. All three areas are aligned with the requirement of high level skills and occupations. Administrative and clerical occupations therefore take a much lower share of total employment than the other sub-sectors. Future growth is expected to feature prominently within the corporate management, professional and associate professional occupations as well as at the elementary service levels as highlighted below.

Table 8: Trends in the key occupational changes in the Professional Services sector (%)

Occupation	1981	1998	2009	Drivers
Corporate managers	10.3	12.5	13.0	For Financial Intermediation and Accountancy services, global (and local) competition requires high quality management and leadership.
Scientific / technical professionals	5.7	6.6	7.4	Growth within this occupation is likely to be related to Accountancy services and associated with the strong technical /regulatory background needed to serve the sector. The market requires very high level technical support especially given the increasingly global market and the need to manage risk.
Business and public service professionals	6.0	6.3	7.4	This, alongside Associate Professional, is a key growth area aligned again with the competitive drive. In Accountancy the need for innovation in services (especially through ICT) is key and in Financial Intermediation, ICT and related investment specialists and developments are a main focus of competitive advantage. Both sectors live alongside the need to deal within more intensive regulatory rules.
Business and public service associate professionals	8.8	10.6	12.5	(as Professional above)
Administrators and clerical	16.6	16.2	15.3	Automated administrative systems driven by ICT decrease the need for clerical support. Key cost cutting driver also.
Secretarial and related	13.9	13.5	11.2	Automated systems driven by ICT decrease the need for secretarial support. Cost cutting driver also.

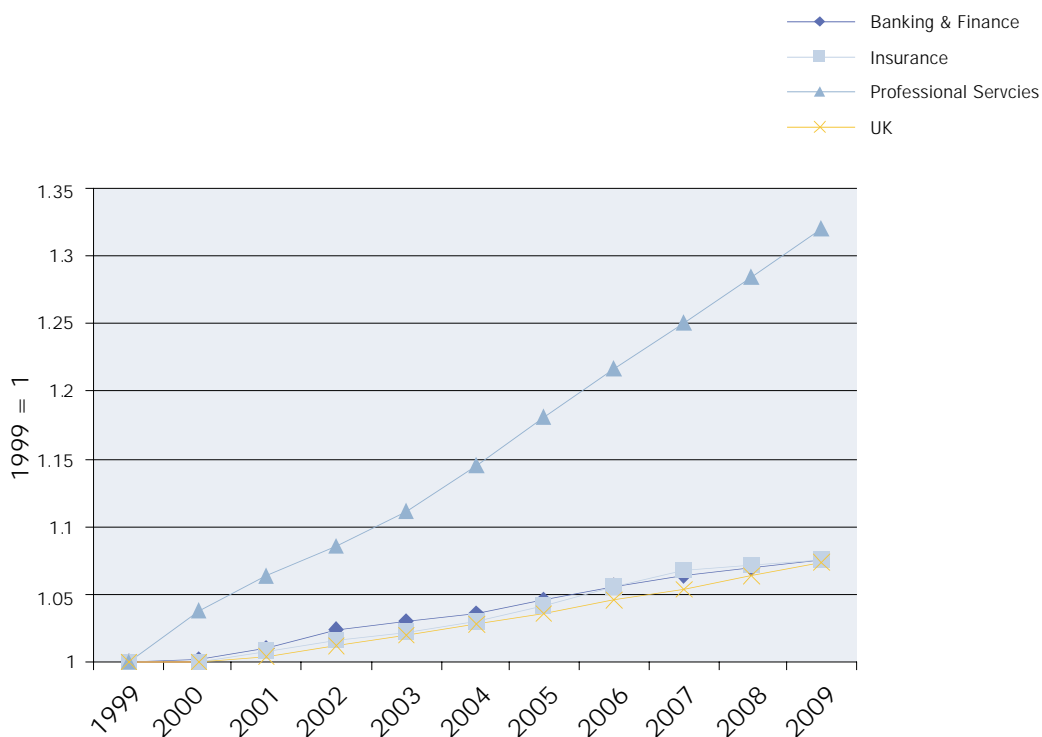
Elementary clerical and service occupations	5.8	6.1	7.0	Essentially a growing role from the increase in automated services and the need therefore for more basic support services.
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Source: IER/KPMG 2001

4.6.1 Summary

The forecast level of employment in Financial Services on the broad definition of the industry is expected to be over 3 million by 2009 - a total increase in employment of almost 630,000. *Figure 8* below summarises trends in the three sub-sectors against the UK average.

Figure 8: Employment forecasts, 1999-2009



Source: IER/KPMG 2001

Comparing these forecasts with the feedback during the Dialogue process suggests that these figures may be too optimistic, although prospects are generally positive. It is the scale rather than direction of change that needs to be treated with a degree of caution.

Recent survey data on the Financial Services industry generally supports this perspective. According to the national ESS, 45% of companies responded that employment had 'stayed the same' in the last 12 months and 38% of companies reported that employment had increased a 'little' or a 'great deal'. Generally, most businesses foresee employment growth supported by good business opportunities. Those indicating employment prospects as weak noted 'company restructuring' and 'seeking to improve business levels' as the principal reasons. This would also appear to coincide with some of the key drivers identified in the market. Any change recorded

by the survey data tended to be a 'little' rather than a 'great deal'. Results across the Financial Services sub-sectors were remarkably consistent. Overall, there was also no obvious relationship between the size of establishment and employment change over the past 12 months.

Future prospects were also positive from the ESS survey. According to 57% of respondents, the market for their main product or service was expected to remain strong for at least the next five years. However, 42% of respondents agreed that there was a need to change product strategies to achieve higher margins, to meet customer needs or to improve quality. This again supported much of the information and consultations associated with the Dialogue. *Table 9* shows how positive the sector appears to be about the market.

Table 9: Applicability of statements to main product or service - the market for our main product or service will remain strong for at least the next five years (%)

	Financial intermediation	Insurance and funding	Activities auxiliary to financial intermediation	Other Financial Services	Total
Very applicable	61.1	54.3	50.4	57.1	56.7
Fairly applicable	26	29.8	33.6	29.2	29.1
Not very applicable	3.2	3.7	7.3	3.7	4
Not at all applicable	1.6	4.6	2.3	1.9	2.4
DK	8.1	7.6	6.4	8.1	7.8

Source: ESS

In terms of occupational trends, further analysis of occupational change and comparison with trends in the UK is at *Appendix 4*. Generally, the main occupational changes in employment for the Financial Services (refer also to *table 5* above) match the *direction* of the trends expected at the national level²⁴. The scale of change does however vary considerably depending on the sub-sector. By implication, the sector should expect a competitive market for its key target skill requirements. In particular, the sector will expect to attract corporate managers, professionals, associate professionals and people employed to support elementary services.

4.6.2 Evidence from the Dialogue Employer Consultations

There was clearly a view that employment growth prospects in the sector were not particularly positive - this had nothing to do with the possibility of a forthcoming recession but rather with the structural changes taking place in the market through the key drivers. Alongside the regulatory changes, these discussions highlighted corporate strategies that were likely to involve more outsourcing - such as IT, Human Resources and back-office processing. This would necessarily take employment outside the sector as defined. In other words, the sector could well be contributing positively to

²⁴ The one exception is for the expected growth in Elementary Services in Financial Services - at the UK level the direction of change is downwards. It is not clear why this is the case other than the shift away from secretarial occupations but with a requirement for clerical and other service support increasing (ie some substitution effect taking place amongst these occupations).

employment but not within the strict definition of the industry. Overall, there were likely to be winners and losers in employment terms and this would result in a net loss or at best, static employment levels in the future. *Table 10* below provides a stylised summary of the responses from the employer consultations to the question of future employment trends.

Table 10: Future Employment Trends - Employer Consultations²⁵

Group	Decline	Static	Growth
N. Ireland		✓	
General Insurance	✓		
Building Societies	✓		
Scotland ²⁶	✓		
Pensions		✓	
Banks	✓		
Life office	✓		
IFAs		✓	
Wales		✓	
Investment			✓

Source: KPMG 2001

To summarise this section:

- ▶ Professional Services aside, the Financial Services sector cannot be relied upon to deliver the level of employment growth with which it has been traditionally associated, especially during the 1980s and late 1990s. However, on balance employment growth should be expected²⁷;
- ▶ Overall future occupational trends in the Financial Services sector mirror the direction of those at the UK level. Consequently, the market for these occupations should remain competitive;
- ▶ Where occupational change is expected, a number of key drivers are related to the forecast employment trends. In particular ICT, competition / globalisation and regulation are all having a significant impact on each of the Financial Services sub-sectors; and
- ▶ Particular occupational growth is expected for: corporate managers; professionals; associate professionals; and elementary services occupations. The sector will also need to continue attracting a sizeable number of people to support the administrative and clerical functions.

25 Excluding Accountancy sector.

26 Reference to the Banking sector only.

27 It should be noted that employment growth here reflects a broad definition of the industry.

4.7 Analysis of Skills

The Dialogue process has therefore identified that the Financial Services sector should experience employment growth and that this is associated with a number of drivers in the market. This in turn is likely to impact on certain occupations. The following reviews how these changes relate to the types of skills that may be needed to support the industry in the future. In terms of the analysis, it is useful to make the distinction between two types of skill sets. Those skills which are generic and therefore tend to apply across a range of different occupational groups; and those which are vocational in that they are specific skills needed to do the work within an occupation. Generic skills encompass communication, team working, problem solving and associated skills. Vocational skills will tend to encompass work or job specific accreditation.

In addition to these, many employers look for particular individual characteristics in recruits, such as motivation, judgement, leadership skills and so on. Many of the latter are thought to be innate skills.

The following briefly reviews the background to potential changing skill requirements in the industry as a pretext to identifying how this actually translates into future skill trends across the sub-sectors.

4.7.1 Background to change

Changes in the occupational balance and skills within the Financial Services industry are likely to be mixed. At one level, the workforce within parts of the sector is not expected to go through dramatic change. Traditionally the industry has sought to recruit or maintain experienced employees particularly at the higher occupational levels. The need to maintain experience within the workforce will therefore counter-balance changes brought about by market forces. This itself reduces the dynamics of the labour market relating to the Financial Services. At the same time, the market is more active in that labour turnover and change is inevitable. For example, the number of knowledge workers²⁸ - including treasury/investment specialists, business specialists, IT specialists, accountants and lawyers - will increase by 30,000 in London and 100,000 nationally. In both cases, there will be broadly offsetting contractions in managerial and clerical jobs. In the Financial Services sector, shortages of knowledge workers have been evident since 1995 and the forecasts imply a worsening trend, both in London and nationally. This is because employers appear to prefer experience as opposed to these new skills - this has also been supported throughout the Dialogue and especially within the IFA profession. The balance of these two forces (ie experience versus new 'knowledge' skills) is difficult to quantify. The implication is that the industry will continue to demand higher level or different skills - both from its established and new workforce.

Professional qualifications across the Banking & Finance sector will need to increase in response to the requirements of the regulator. There will also be an associated increase in demand for IT specialists where demand for Internet and Intranet expertise are expected to grow. The number of sales, marketing and telephone sales staff employed by Banking and Finance sectors are also expected to increase with associated skill contents including both basic technical and communication skills.

28 Rajan and Van Eupen (1998).

In Insurance and related Financial Services, there will be an increase in demand for all qualifications. This is in part a response to the regulator but also to competition and market change. The numbers of sales and marketing staff, business specialists and IT specialists are also likely to increase considerably.

For Professional Services the prospect of prolific growth suggests significant demand for higher level skills in order to differentiate from competitors and add value - especially within Accountancy and Financial Intermediation.

4.8 Skill Trends

4.8.1 General

Whilst it would appear that the skills requirements of the average employee in the Financial Services sector are increasing, this is almost universally true of employment across the UK labour market (Hasluck, 1999). A number of factors within Financial Services show however that it is amongst the UK's most demanding industries in terms of skill requirements.

4.8.1.1 *Technology advancements (eg data systems)*

Customer data management²⁹ will be crucial for Financial Services firms in the future. In essence this can be explained by the need to understand your customer and how he/she behaves. Knowledge about customers will become increasingly valuable as a way of targeting services and products. The ownership and good management of this data will be important to firms' success - hence the prospects for growth in the professional and associate professional occupations including ICT specialists. In addition, the sector has been subject to increased automation; for example, the much-quoted replacement of banking staff by Automated Teller Machines (ATM). The pressure to reduce costs will impact upon all employees in the Financial Services sector; most notable however, is the pressure to cut secretarial and administration costs. This has again been supported by the Dialogue process with claims that the wage lever is not something that can be used as freely at this level to address skill shortages.

4.8.1.2 *Changing business needs*

As highlighted previously, there will be a shift away from a product-driven industry towards a customer-driven market. This has clear implications in signalling an occupational shift towards people with more holistic skills encompassing both technical and generic skills. The US market is already incorporating these elements within training regimes (eg Accountancy) unlike the UK. During the Dialogue a number of comments were made about the industry's awareness of this need but there was an equal reluctance by employers to adopt its development within the current accreditation systems.

4.8.1.3 *Risk management skills*

The shift of financial responsibility from company and Government to the individual, along with the proliferation of small businesses will stimulate demand for risk management and more advice, insurance against e-commerce risk and "social" risks³⁰. The effective management of risk calls for a clear focus on comprehensive, timely and reliable management information to support corporate decision making. Alongside the

29 FS 2020, KPMG.

30 Foresight Financial Services Panel Report.

need for independence in the advisory system both corporately and on an individual basis, this is another area where skills and training will need to be up to speed with the market. Equally, at the higher level, this will underpin greater demand for professional staff.

4.8.1.4 Individualism

Underpinning changes in the employment relationship taking place in Financial Services is a shift away from paternalism and the offer of a 'job for life' towards a performance culture and the offer of employability ("we can give you the opportunity to acquire employable skills, but will not necessarily give you long term employment"). Employability is about having the capability to gain initial employment, maintain employment and obtain new employment if required³¹. As such the Financial Services sector is experiencing a trend towards increased individualism to cope with a changing market. This also reflects the shift in policy by the Government - away from state provision towards encouraging self-provision. According to the recent Foresight report (2000) on the Finance Sector:

"The growing importance of the individual - as entrepreneur, investor, consumer - will mark one of the big changes of the coming decade. As the individual takes more control over his financial affairs, he will want a fuller range of products. People will become more discerning, more ready to shop around; this means less inertia, but also less loyalty. But a more financially active consumer will also need more help and advice: better price information, clearer choices, regular financial health checks. Some of this will come from familiar sources (eg IFAs, the Press). But more will be delivered by technology (search engines, electronic decision-makers, ready reckoners), and there will be a growing role for Government and employers to help consumers handle their new financial responsibilities. The increasingly complex financial environment will also strengthen demand for simple products and clear standards, such as the Government's CAT standards".

There will also be an increasing emphasis on self-learning/lifelong learning. According to Rajan (1999), more personalised avenues of self-learning are being explored in order to develop the newly emerging requirements for leadership, behavioural and IT skills. This is also a response to problems of staff retention at some levels (eg Call Centres). In these cases attempts are made to identify non-wage options as well as to provide more definitive career development paths in order to retain staff. It is also an attempt to move with the market without incorporating some softer skill development areas within some of the rigid accreditation frameworks associated with the Financial Services sector. In other words, there are core (vocational) skills and non-core (generic) skills that the sector recognises; it perceives accreditation as the de minimus core which it must support. This is unlikely to include generic skills development and other technical skills required for the changing marketplace. Therefore, the degree to which a holistic package or competence-based training and accreditation becomes apparent within the workforce or within training and development frameworks is open to debate. At the same time, global competitors are already adopting wider accreditation frameworks, incorporating vocational **and** generic skills, in order to meet the future demand requirements of this fast changing industry.

Alongside these general factors, the following more specific skill issues are applicable across the future Financial Services sector.

4.8.2 New and specific technical skills

There is a continual need for employees to keep up with a range of technical changes both as a result of regulation and dynamic change in the market. This affects employees at all levels although the complexity of change increases with the occupational hierarchy.

4.8.3 IT User and Specialist skills

Demand will continue to grow for basic IT skills as the shift towards Call Centres and on-line finance continues and the application of IT across all disciplines (ie IT user skills). However, there is likely to be a more noticeable increase in the demand for advanced IT and software skills as consumers become more discerning. Emphasis will be placed on the quality, simplicity and speed of websites which will require additional skills, those of website designers in particular (ie IT specialist skills).

4.8.4 Creativity

Bankers will need to acquire finer credit skills in order to differentiate new types of business and to value companies whose assets are becoming increasingly intangible - such as knowledge and intellectual property³² based assets.

4.8.5 Multi-skilling and greater flexibility

In the Financial Services sector, as in other sectors of the UK economy, employees will need to be flexible and multi-skilled in order to deal with their employers' increasing demands. This will be true at both junior and more senior levels.

4.8.6 The ability to deal with change

Change, whether through the adoption of new technologies and working practices or through mergers/acquisitions or through new organisational structures is a fact of life for most Financial Services employers. Employees at all levels need to be able to cope positively with this, whether through their general attitude or their ability to learn new skills. Managers, especially those at senior levels, need change management skills, which enable them to introduce change and to manage it effectively through their organisations. According to KPMG³³, change management is seen by many to be a soft issue, and, unfortunately, one area where cost savings can be achieved in a major project. It is this approach, overlooking the contribution which employees can make to the implementation of change, which is the primary cause of failure in most major change initiatives.

4.8.7 An ability to continue learning/reskilling

Implicit in the areas listed above is the need for Financial Services employees to continue learning - and this is particularly important given that a significant proportion of the current stock of skills will potentially remain within the industry over the next 10 years or so. Employers increasingly look for an ability to learn, but also an attitude of mind which predisposes people to be interested in, and proactive about, learning³⁴.

³² Foresight Financial Services Panel Report.

³³ KPMG, FS 2020.

³⁴ Employability: Bridging the Gap between Rhetoric and Reality, 2000.

4.8.8 The greater importance of personal and generic skills

Overall, employees are expected to have the following skills and abilities: communication, team-working, problem-solving, organisation and management. However, it is questionable whether the Financial Services sector will want to invest in developing these skills - hence the focus on self-learning.

4.8.9 Business awareness

This has varying implications at different levels. For example, those involved in the design of new financial products need to understand the business and its position and aims in the wider market. However, as businesses have become more competitive, it has become increasingly important that employees at all levels understand the implications of their actions, or that of their team, for others and the customers.

4.8.10 Customer service skills

The Financial Services sector has become much more customer-focused and this has implications for the skills of employees as noted above. *Table 11* below provides a summary analysis of these skill trends and the significance with which they relate to the sub-sectors³⁵.

Table 11: Skill requirements in Financial Services sub-sectors and related occupations³⁶

Skills	Banking & Finance	Insurance	Professional Services
IT User	✓✓✓ All SOC	✓✓✓ All SOC	✓✓✓ All SOC
IT Specialist	✓✓✓ SOC 2 - 3	✓✓✓ SOC 2 -.3	✓✓✓ SOC 2 - 3
Creativity	✓✓✓ All SOC	✓✓✓ All SOC	✓✓✓ All SOC
Multi-skilling	✓✓ All SOC	✓✓ All SOC	✓✓✓ All SOC
Change management	✓✓ SOC 1	✓✓ SOC 1	✓✓✓ NA
Learning/re-skilling	✓✓ All SOC	✓✓ All SOC	✓ All SOC
Business awareness	✓✓✓ SOC 1 - 3	✓✓ SOC 1 - 3	✓✓✓ SOC 1 - 3
Customer service skills	✓✓✓ SOC 4	✓✓✓ SOC 4	✓✓ All SOC
Technical Skills	✓✓✓ SOC 2 - 3	✓✓✓ SOC 2 - 3	✓✓ SOC 2 - 3
Experience	✓✓✓ All SOC	✓✓✓ All SOC	✓✓ All SOC
Generic Skills	✓✓✓ All SOC	✓✓✓ All SOC	✓✓✓ All SOC
Key	✓✓✓ = Very Significant	✓✓ = Significant	✓ = Some Significance

Source: KPMG 2001

The analysis is necessarily broad but does highlight that many of the skill requirements are cross-occupational. ICT and generic skills feature prominently across occupations and sectors.

³⁵ Skill trends raised as 'general' to the industry are not included in that they apply to all sub-sectors.

³⁶ Those occupational classifications highlighted are those with a primary link to the skill need.

4.9 Overall Demand

4.9.1 Overall demand requirements for Financial Services

The following analyses the implications of the forecast increases in employment discussed earlier in this section. The analysis is based on a consideration of future demand associated with replacement factors (eg retirements, occupational mobility etc) and expansion (ie employment growth). The combined analysis provides an indication of the net requirement demand for employees for the sector and across occupations. It takes into account more fully workforce turnover and the implications this has on the demand structures for occupations in the future. With reference to *tables 6, 7, 8 and 11* net change can also be associated with skill requirements.

The overall net demand for the broadly defined sector (ie including Business Services) is estimated at just under 1.8 million people between 1998-2009 - which compares with 1998 total employment of 2.4 million³⁷. Importantly, the key component of net demand is replacement rather than expansion demand. At the higher level occupations, the degree of replacement taking place is proportionally much lower than for administration and clerical occupations for example. On average, over 50% of the current workforce should still be in place in 10 years time but the figure for the intermediate/lower end of the occupational scale will be considerably less than this. *Table 12* provides a summary analysis of net replacement demand for the key Financial Services sub-sectors for the period 1998-2009 (see also *Appendix 4*).

Table 12: Net Replacement Demand Analysis for the Financial Services Sector, 1998-2009

	Base Year Employment	Expansion Demand	Replacement Demand	Net Demand Requirement
Professional Services	1,532,635	547,228	715,939	1,263,167
Insurance	261,119	23,496	121,364	144,860
Banking and Finance	644,433	58,067	314,307	372,374
Total	2,438,187	628,791	1,151,610	1,780,401

Source: IER/KPMG 2001

From this analysis, we can highlight the following:

- ▶ replacement demand is by far the greatest component of net change in each of the Financial Services sub-sectors over the next 10 years or so;
- ▶ expansion demand will also be a significant component of employment change within Professional Services; and
- ▶ in terms of overall demand requirement, Professional Services will make up by far the largest component of employment change (ie over 70%).

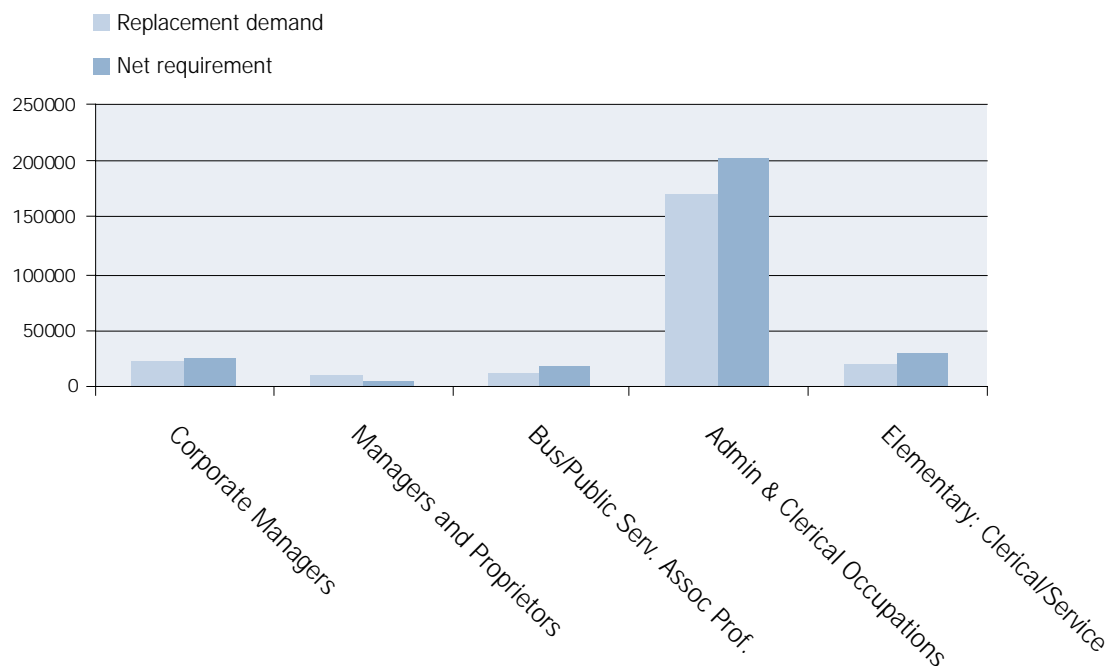
³⁷ On the narrow definition of the sector, net requirement is approximately 1.1 million from 1.7 million.

4.9.2 Occupational Demand

In terms of the specific occupational demand across the industry, the following analysis highlights the main issues and changes (see also *Appendix 4*). Clearly, these changes should be considered in terms of the discussions above concerning occupational and skill changes expected in the future.

Figure 9 below highlights net occupational changes within the Banking and Finance sector. The analysis clearly points to a concentration of demand change in the administration and clerical occupations (related to Call Centres or Customer Services Centres) but also at the elementary levels. This reflects assertions about the workforce in the industry being segmented³⁸. A feature of a segmented workforce is that labour turnover is more pronounced lower down the occupational scale. It is also apparent that demand changes are associated with replacement demand - in which case, it could be inferred from this analysis that high turnover will persist within Call Centres.

Figure 9: Replacement demand and net requirements for selected occupations in Banking & Finance, 1998-2009 (absolutes)



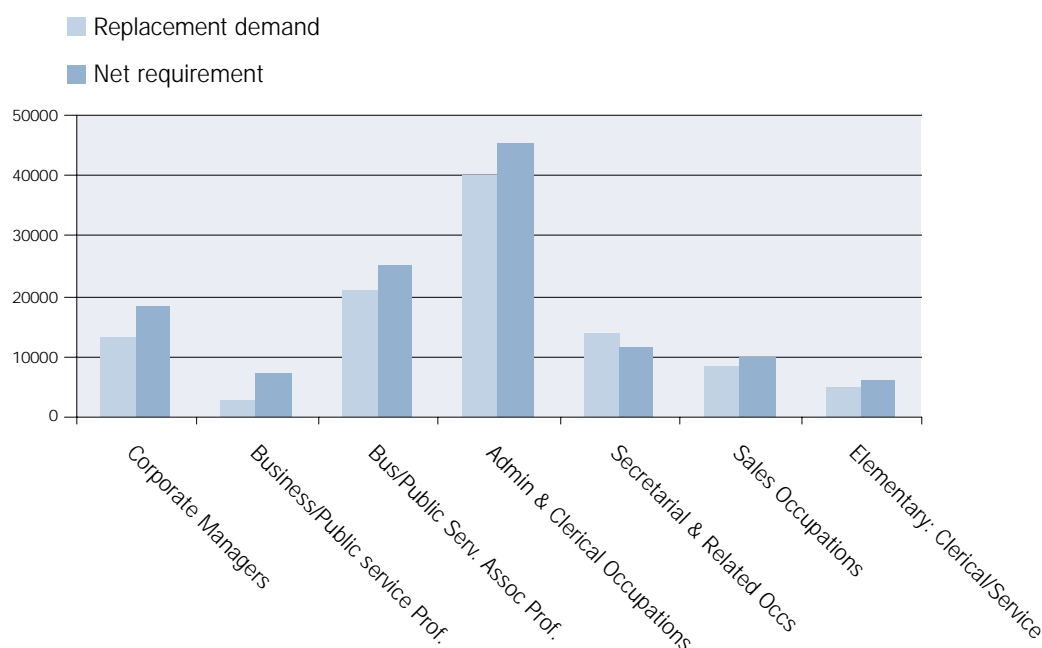
Source: IER/KPMG 2001

³⁸ During the Dialogue it became evident that the workforce within the Financial Services industry is described as segmented. Roughly, those who are employed at intermediate or lower occupations do not operate within the same HR framework as those operating within higher occupations. As a result, labour turnover for example tends to be more prevalent at the intermediate or lower occupations since their contractual conditions tend to be weaker or less attractive.

Figure 10 illustrates the same analysis for the Insurance sector. The picture is slightly different here with occupational change likely to be concentrated around the corporate management (18,000), administrators and clerical staff (45,000) and business and public service associate professionals (25,000) occupational groups. These changes will again be associated with Call Centre activity but also those trends towards IT specialists and higher technical skill requirements. Net demand will also be relatively high within the sales profession - no doubt linked to the turnover in the IFA profession.

Net demand for female employees (81,000) is predicted to be higher than for men (64,000) highlighting the growing importance of women in the sector. It is not clear why this is the case - no other evidence gathered during the Dialogue would suggest or support such a trend although clearly strong demand for administration and clerical staff would implicitly be associated with more female employment opportunities.

Figure 10: Replacement demand and net requirements for selected occupations in Insurance, 1998-2009 (absolutes)

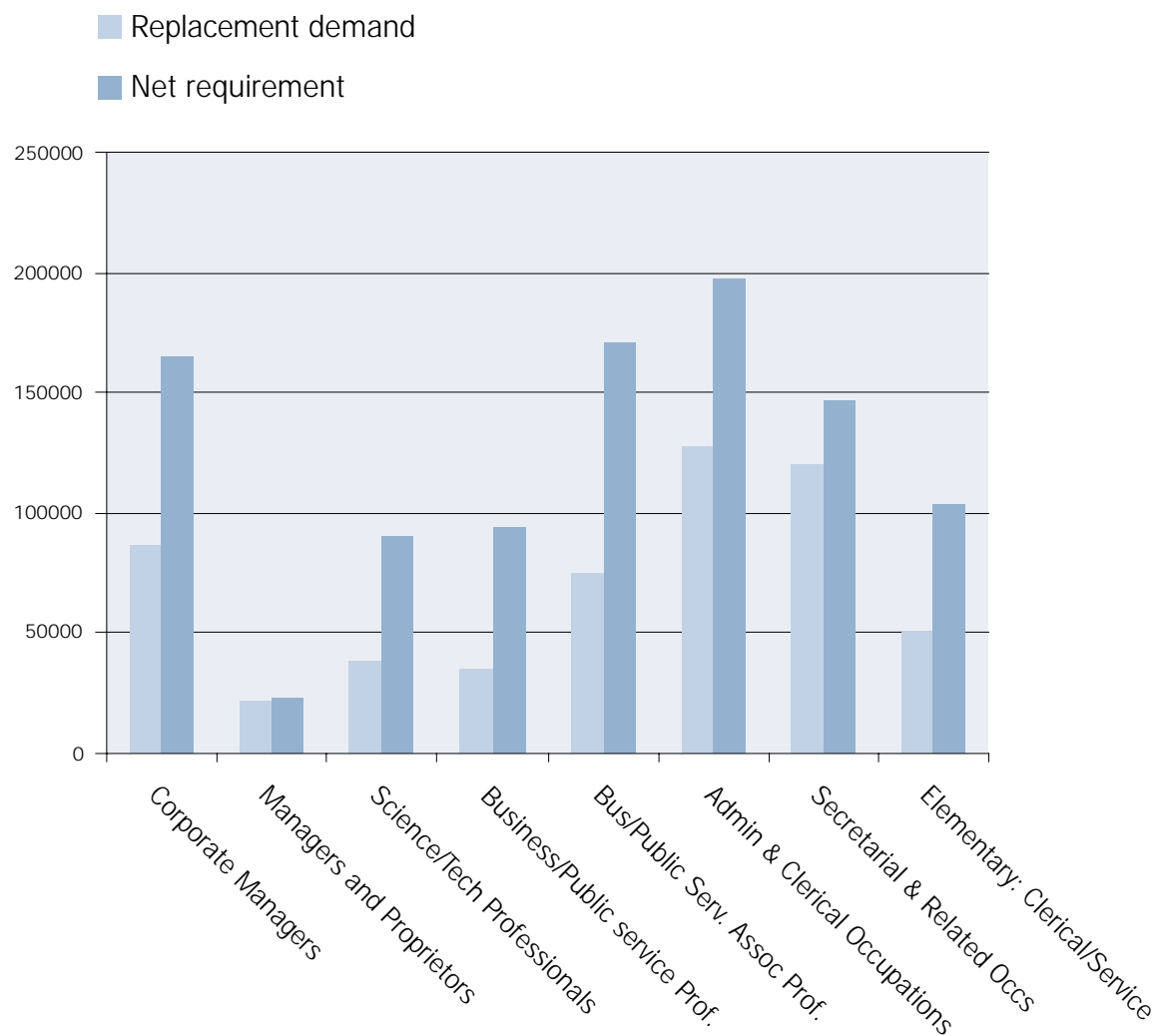


Source: IER/KPMG 2001

Finally, figure 11 is a summary analysis of expected employment change in the Professional Services sector (under the broad definition). The occupations required are more mixed than the Banking & Finance and Insurance sectors although the evidence again points to more churning within the lower level occupations. The greatest number of additional employees is expected in the corporate manager group (164,000), business and public service associate professionals (171,000), administrative and clerical occupations (197,000), secretarial and related occupations (147,000) and elementary clerical and service occupations (102,000). These are significant changes to the extent that they relate to a more narrowly defined Financial Sector, then changes at corporate management and associate professional levels are possibly more relevant. This would coincide with growing demand for technical skills, ICT specialists and innovation in product development within Accountancy and the need for ICT and investment specialists within Financial Intermediation in the face of growing competition in the marketplace (refer to table 8 above).

The majority of this demand is expected to be for female employees (748,000) working as corporate managers (65,000), business and public service professionals (36,000), business and public service associate professionals (95,000), administrative and clerical occupations (168,000) and secretarial and related occupations (145,000). The data indicates that the net demand requirement for female employees will be driven in the main by replacement demand, but also by expansion demand in the sector. Future demand for male employees is more likely to be required in order to meet replacement demand needs.

Figure 11: Replacement demand and net requirements for selected occupations in Professional Services, 1998-2009 (absolutes)



Source: IER/KPMG 2001

4.10 Conclusion

It is difficult to summarise a set of such dynamic and complex changes taking place in the Financial Services sector. However, the picture is reasonably positive given the anticipated growth in employment. This must be tempered by the fact that the overall Dialogue response would suggest that the scale of growth will be less than what is anticipated by the forecasts. On the other hand, the sector does face a challenge (ie a net requirement of 1.78 million on the broad sectoral definition) in terms of both the scale and nature of change likely to be taking place over the next 10 years or so. In terms of the key messages from the analysis, therefore, we would highlight the following:

- ▶ overall, **future employment prospects are reasonable** for the sector although it cannot be relied on to generate or produce the same level of growth as it has in the recent past;
- ▶ skills and occupational needs are expected to change in response to the key drivers already identified in this report but in particular to the impact of ICT, competition and the regulatory regime. However it is likely that the industry will do the minimum necessary to satisfy the regulator in terms of upskilling its workforce and that individuals will have to take on responsibility for their own development as a means of enhancing their own employability;
- ▶ **employability skills in the industry will include a mix of core (vocational/technical) and non-core (generic) skills** - generic skills may be acquired from the marketplace but, more realistically, the industry is likely to focus on securing highly qualified people to ensure core accreditation/skills are in place and take an *ad hoc* approach to other skills development needs;
- ▶ a number of skills and occupations are highlighted in terms of expansion and overall net requirements, in particular -
 - ▶ high and medium specialist level ICT skills are an important source of demand in the future;
 - ▶ corporate management, professional and associate professional occupations will be a feature of expansion and net requirement demand in the industry with skill requirements incorporating high quality management, new technical, ICT and generic skills;
 - ▶ clerical and administrative occupations will experience the most significant change primarily through replacement demand rather than through expansion demand. It is also likely that these developments will be associated with Call Centre activity and other ICT user-related professions which may be the main focus of demand for generic skills (ie communication/interpersonal skills). This will provide a real challenge to the industry since high labour turnover means less training - hence the strategy taken by the industry to delegate this responsibility to individuals to limit its potential losses;

- ▶ it is evident through the demand side analysis that female employment is expected to grow within the sector as it also makes up the core of expansion and replacement demand (changes in male employment are mostly related to replacement demand). For example, overall growth in female employment is expected to be almost twice that for males in the Professional Services between 1998-2009;
- ▶ although not highlighted in the above analysis, there would appear to be some evidence that expansion demand is also related to younger people.

5 Supply of Financial Services Skills

5.1 Introduction

Information on the supply side for this sector is not particularly accessible. The Financial Services sector as defined has an extensive accreditation network closely linked to the regulatory framework. Together with in-house accreditation, it is difficult to provide a clear quantitative picture of training and qualifications/accreditation within the industry. To illustrate the point, there are over 60 accreditations³⁹ associated with a number of chartered institutes, associate institutes and NVQs/SVQs linked to the sector (see Appendix 7). The analysis therefore draws together a picture of the supply side framework within the sector, supported where possible with survey data. In this respect, the Labour Force Survey provides an important contribution to the analysis.

However, to place the supply-side analysis in context, there are three important features of training and skills development within the Financial Services sector which need to be highlighted:

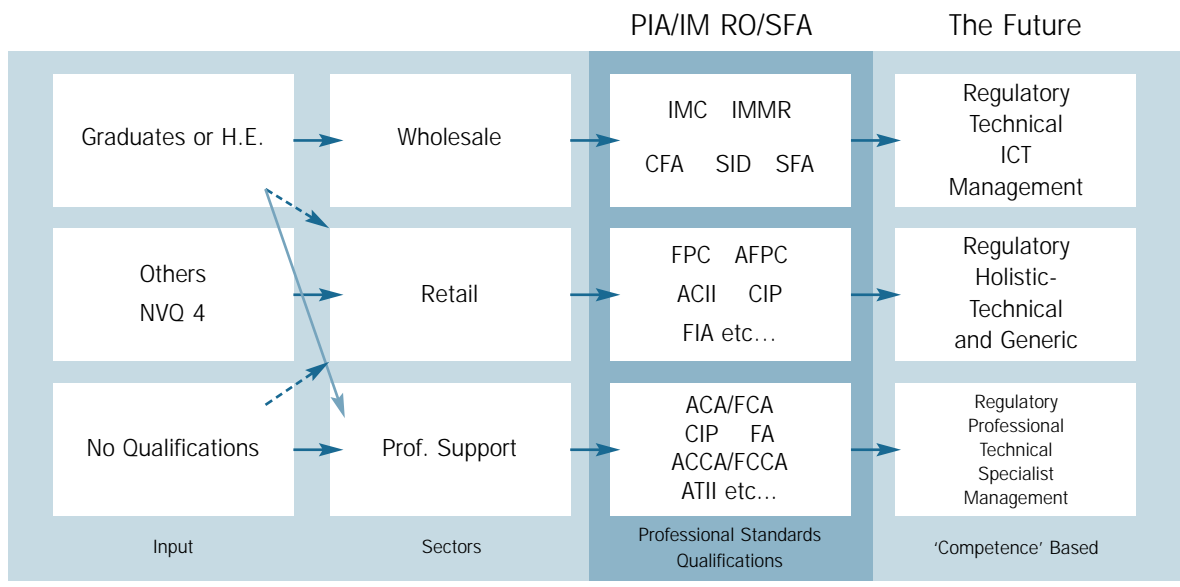
- ▶ it is inherently professionally-driven, hence the presence of a significant accreditation system which is specific to the sector;
- ▶ training is delivered primarily through in-house systems or private sector providers; and
- ▶ the public sector in terms of the LSCs, the RDAs and the education sector more generally rarely have a role in providing training and skills development support in financial services⁴⁰.

5.2 Supply Side Framework

Whilst it is very difficult to generalise, it is important to gain a perspective of the current flow of skills to and within the industry. *Figure 12* does this through providing a stylised description of the respective flows of qualified people into the sector and the subsequent movement into professional qualification. However, it should be noted that the definition of skills is not synonymous with qualifications - at best, qualifications are a proxy indicator and throughout the analysis this needs to be recognised.

39 Excluding accreditations associated with Accountancy.

40 It should be highlighted that the Accountancy sector makes extensive use of public sector provision - comments therefore reflecting the industry's detachment from public sector support is not therefore necessarily a reflection of the Accountancy profession.

Figure 12: Supply side - how it works in Financial Services


Source: KPMG 2001

The essential features of the Financial Services sector in terms of skills and training, are that:

- ▶ graduates and post graduates have tended to be associated with the Accountancy and Financial Intermediation sectors and less so within the Retail sector (ie Banking & Finance and Insurance);
- ▶ other qualifications up to degree level have tended to flow to the Financial Intermediation, Banking, Finance and Insurance sectors; and
- ▶ those with no qualifications have a diminishing role in this industry and, where they have, it has traditionally been associated with the Insurance sector.

Beyond the initial entry to the sector as a whole, each sub-sector has its own system of accreditation in which the regulator's role is becoming increasingly important, notably in ensuring higher standards (although this is less so with Accountancy⁴¹). As noted above, accredited training is delivered primarily through in-house or private training providers leaving little scope for the public sector. A reflection of this has been the sector's response to NVQs/SVQs which are not particularly well regarded and thought to be overly bureaucratic. The employer consultations were revealing in this respect. The negative view of the public sector related to the lack of responsiveness when support was sought. In such a dynamic and complex environment, neither the TECs/LSCs nor the colleges appeared to provide the type and/or quality of service that would meet the needs of the sector within an appropriate timescale. The other concern was the NVQ/SVQ system which was regarded as a 'paper chase', 'tick box oriented' and 'lacking the practical focus needed for accreditation purposes'.

There are examples of success, notably in Investment National Occupational Standards, but in other cases, individuals preferred company accreditation even if it was less attractive in the marketplace. In which case this partly explains why the sector appears to have internalised skills and training provision - it perceives that there

41 It should be noted that most of the comments made in this section refer to the Banking, Financial, Insurance and Financial Intermediation sectors and not necessarily the Accountancy profession.

are no credible alternatives⁴². Evidence highlighting the limited role of NVQs/SVQs in the industry is also reflected in the Modern Apprenticeships (MAs) system. However, evidence of competence in Accountancy is much easier to demonstrate than in mainstream financial services. Accountancy is the largest Financial Services client for MAs with total starts to date of 1,400 in the foundation system and just over 11,000 in the advanced - around 2% of total employment in the sub-sector. Of the 6,400 advanced MA leavers, less than 40% - ie 2,500 - have gained qualifications at level 3 or above. The public sector has therefore a limited role within the Financial Services skills supply chain beyond secondary or graduate education.

5.2.1 Accreditation

Professional accreditation plays a key role in the maintenance of quality and standards in the Financial Services sector. There are, however, diverse views of the appropriateness of, and the motivation behind, the current accreditation system⁴³. Unlike the regulator, the accreditation system may not have challenged the sector sufficiently leading to the problems of the mid-1990s - problems which might never have emerged if the accreditation system had been working better. It is apparent that those involved in the sector recognise the shortcomings of the accreditation system but also seek comfort from it as a means of keeping within guidelines and maintaining standards. In terms of skills supply there are important implications associated with the system. For example, once the professional accreditation is attained, there is an obvious tendency to stay within the particular sector or area of expertise.

Over the last ten years with the impact of regulation, technology and competition the sector in labour market terms, has become far more uncertain and more dynamic. During this period accreditation has remained largely unchanged. Issues of competency and the need for updating skills have emerged especially around the development need for more holistic skills (ie incorporating both vocational and generic skills) in the workplace.

The key conclusions from phase 1 of the FSNTO 'Competence and Qualifications' report highlight the following issues:

- ▶ skills development in the Financial Services sector needs to match the dynamics of the marketplace - the UK will fall behind its key competitors unless this is the case;
- ▶ professional qualifications have become institutionalised adding to the lack of dynamics in the sector - in fact, the plethora of professional and awarding bodies associated with the sector are not thought to be acting in the best interests of the industry;
- ▶ with the market changing dramatically towards being more client focused, skills supply is, by all accounts, dislocated from the growing and changing demand in the marketplace. **There is increasing recognition that competence to do the job is as important as professional accreditation**; the latter is therefore seen as only a part of the mix of skill requirements for the industry;
- ▶ other important skills for the industry need to be built into the core competence process of training within the industry including IT, business awareness, leadership and behavioural skills;

42 This though was not necessarily reflected in Scotland where the public sector issues appear to be less apparent.

43 See FSNTO report - 'Competence and Qualifications in the Financial Services Industry' (July 2000).

- ▶ the identification and development of these more generic and technical skills will extend the concept of employability throughout the industry - the most important skill to have now is that which deals with continuous change since this is the only certainty in the sector;
- ▶ despite their vocational focus, NVOs/SVOs have a branding problem - this needs to be addressed if the public sector is to play a meaningful role in supporting the sector; and
- ▶ linkages with higher education institutions are beginning to emerge, bridging gaps and supporting development needs especially in relation to management training.

Qualifications and professional accreditation are therefore increasingly seen as only one of a number of skill requirements for the industry. Competence to do the job is viewed by many as a key method of securing competitive advantage. This was confirmed during the Dialogue. Simply securing minimum accreditation standards does not equate with competence to do the work. As such, a market which is becoming increasingly client focused at every level requires more than just technical skills. Competence is therefore thought to encapsulate a much broader definition of what the accreditation process should be. This view is supported by a recent study⁴⁴ highlighting a sea change in the philosophies of businesses within the sector. The individual is expected to assume greater responsibility for accreditation beyond the minimum professional requirement and standards set by the industry/regulator. Matching this type of change with the tradition of attracting experience to the industry alongside the present rigid professional accreditation system is a challenge which will contribute to the tension between expected demand and current supply.

5.3 Current Skills and Training

Given that this is a highly professionally oriented sector, we would expect to see a substantial number of qualified people within the industry and significant levels of training taking place to meet accreditation requirements. The following analysis is based on the Labour Force Survey (LFS)⁴⁵. Observations have been taken from 1994 to the present; the results are therefore considered to be reasonably robust.

5.3.1 Stock Analysis

The LFS shows that the Financial Services sector overall, and individual sub-sectors within it, employs a much higher proportion of people with degrees or their equivalent than the UK average. Conversely, the sector has a much lower proportion of those without qualifications than the UK average. A high concentration of the degree-qualified Financial Services workforce is apparent within the professional occupational classification, followed by managerial and associate professional. This is not surprising given the high value nature of the sector; overall around an average of 75% of the UK workforce has qualification levels of GCSEs grades A-C or equivalent - the comparable figure for Financial Services is near 89%. The sector is, therefore, well endowed with a stock of academic qualifications and broadly reflects the stylised flow analysis in *figure 12*. The Accountancy sector in particular stands out with a very high proportion of people with degree level qualifications. A recent, and unexpected, development is the relatively high proportion of people with degrees in the Insurance sector.

44 Competing Through Skills (1999) - CREATE.

45 Small sampling errors will be associated with this type of data.

Table 13: Stock of qualifications in the UK and Financial Services - Highest qualifications - LFS Spring 2000

	UK Average	Financial Services	Banking and Finance	Insurance	Financial Intermediation	Accountancy
Degree or equivalent	18%	31%	22%	26%	22%	46%
HE	10%	7%	7%	7%	6%	7%
GCSE A Level or equivalent	25%	24%	27%	33%	27%	17%
GCSE grades A-C or equivalent	22%	27%	33%	25%	32%	19%
Other qualifications	13%	7%	7%	6%	8%	7%
No qualification	11%	3%	4%	1%	3%	3%
Don't know	1%	1%	1%	1%	1%	1%

Source: LFS

Evidence from the LFS suggests that significant post-educational training also takes place within the sector. Again, this would be expected given the earlier assertion that regulation is pushing up standards, that competition is intense and that accreditation is widespread within the industry. Latest data from the LFS indicates that around 20% of the Financial Services sector workforce overall was in work-based or educational training in the previous month to the survey compared with a 15% average for the UK. There appeared to be some difference in the scale of training between the individual sub-sectors although all were significantly above the UK average.

Further analysis of training by occupation⁴⁶ (refer to *Appendix 5*) shows that a significant amount of training takes place within the Financial Services sector, especially across the higher occupations. Training is still falling short of an implicit optimum, taking the UK average as a benchmark across occupations. Defining that optimum as a share of training relative to the share of employment suggests that both the UK and the Financial Services industry are training at lower than expected levels within the managerial and administrative and clerical occupations and more than expected in other occupations.

The distribution of training taking place in the sector would, from this analysis, appear to be somewhat disproportionate towards those in professional/associate professional occupations. Whether this is associated with regulation or market forces is unclear - probably both. One important factor may be labour retention issues associated with, for example, Call Centres which militates against training beyond a certain level within the clerical occupations. This would appear to be supported by the facts. The Dialogue process identified that turnover rates in some areas were 40% within Call Centres. This was in part a result of monotony, relatively low pay, unsociable hours and competition for skills. Businesses could not justify using wages as a method of retaining staff because of tight margins. Non-wage strategies were therefore being adopted, including training, promoting internal career opportunities, flexible working, temporary transfers

46 Specified as during the last 4 weeks in the current employment.

and so on. What was apparent - and echoed across many of the consultations - was that standard Career Development Plans (CDPs) needed to be produced for this section of the industry. High turnover militated against training; therefore greater certainty needed to be engendered on both sides to ensure that retention rates increased. CDPs were thought to be an important step towards achieving this.

Longer term analysis suggests that this picture of training in the Financial Services sector is fairly representative with little difference apparent in the scale of training during the 1990s. However, one exception is the change in the distribution of qualifications within the sector. *Table 14* offers an interesting perspective on this and on the impact which the regulator in particular appears to have had on the stock of qualifications within Financial Services.

Table 14: Highest Qualifications in the Financial Services 1994 and 2000

	Qualification	Banking & Finance	Insurance	Financial Intermediation	Accountancy
1994	Degrees	16%	15%	14%	43%
1994	Unqualified	5%	8%	6%	4%
2000	Degrees	22%	26%	22%	46%
2000	Unqualified	4%	1%	3%	3%

Source: LFS/KPMG 2001

There has clearly been a trend towards higher level qualifications. The sector has been through some difficulties and this is evident in the way it has been engaging a more highly qualified workforce and reducing the share of unqualified people within its ranks. It is likely that the increase in the stock of qualifications in the Financial Services sector is associated as much with the loss in employment of unqualified staff (eg tied agents) as it is an autonomous increase in demand for qualified people.

5.4 Future Skills Flow

5.4.1 Introduction

As far as future skills supply for this sector is concerned, it needs to be understood that the emphasis on professional qualification is unlikely to decrease significantly in the short term - although as already noted there is a growing body of opinion suggesting that this is not as beneficial to the industry as it could be. A large part of the sector will continue to concentrate on securing higher level skills - as will a growing number of other sectors. This may drive up wages if the flow of skills into the market does not keep up with demand. In turn, there is evidence to suggest that the Financial Services sector is becoming more dependent on its current stock of skills for its future supply. It follows that the current skills base will provide a somewhat inert feature of future skills supply to the sector. Put another way, the industry already has a significant supply of skills on which to draw in the future. The key issue is to what extent this translates into fulfilling future skill requirements. To address this, two components of the future flow of skills need to be considered. First, is the role of the existing stock of skills in providing future skills and the second is the degree to which the economy can provide new skills to meet the net demand requirement in the future. The following reviews these two issues.

5.5 Current Stock as Future Supply

Significant changes in the stock are likely to be associated with dominant occupations within the sector - namely corporate managers, professionals and associate professionals, clerical and secretarial - which are also driven by replacement as opposed to expansion needs - between 70% and 80% of total net changes in some cases. The exceptions are business professionals (including ICT) within Insurance and Professional Services and associate professionals within Professional Services⁴⁷. Around 53% of the existing Financial Services sector workforce will remain in the industry throughout the forecast period (1998-2009). For the lower and intermediate occupations in particular (eg elementary, secretarial and clerical), this proportion is expected to be well below half. Employment and therefore skills supply is expected to change, but a large proportion of the current stock will also make up the skill flows in the future especially at the higher occupational level.

A dependency on the current stock of skills to feed future skills supply needs raises some issues especially around retraining/upskilling. Competence to do the job has been highlighted as the key requirement for the industry as a whole. If this is accepted by the industry, then it needs to be addressed within the current workforce. Further, different approaches are required if this needs to be achieved across all occupations. For example, there was clearly a view during the Dialogue process that the Financial Services workforce is segmented between the higher level occupations and intermediate/lower occupations. Lower workforce turnover at higher occupational levels (ie corporate managers and professionals) facilitates more training because it allows for a greater degree of certainty in the return on any investment in training and retraining. High turnover across the other occupations militates against significant investment due to the risk and uncertainty regarding returns on training investment.

The Dialogue process suggests that the sector is generally more likely to concentrate on the traditional accreditation routes to meet the challenge of a dynamic market. As a result there is a possibility of a mismatch or at least a threat to competitive advantage in the industry as the training system may not deliver the full complement of skills needed for the future. Alongside these general issues are those issues associated with the supply of skills to the IFA profession. Traditionally, IFAs have been recruited from other parts of the industry (eg life office and other sales forces). Securing an experienced salesperson has been a key factor in this strategy. With the demise of the traditional sales force, this is no longer a source of skill supply to the IFA profession. It was also highlighted during the Dialogue that the Call Centre sales people would not be appropriate for the IFA role. Therefore for the first time, the IFA network is expecting to face the need for more fundamental HRD strategies to cope with replacement demand⁴⁸ and possibly also expansion demand.

47 Note that this does not necessarily mean the Financial Services sub-sectors included within the Professional Services definition. Moreover it is likely that the trends expressed elsewhere in the Financial Services sector may at least be replicated within the Wholesale sector.

48 During the Dialogue process, it was highlighted that the IFA profession was facing a serious issue with many experienced operators approaching retirement.

5.6 Skills Supply - Key Future Sources and Issues

5.6.1 Future Workforce and Unemployment Flows

Growth in the workforce and flows in and out of unemployment provide a key source of skill supply to this sector. We could reasonably assume that these two labour market components should contribute to a sizeable proportion of the net requirement demand for the sector up to 2009. Calculations based on population projections and upon flows in and out of unemployment which are reasonably assumed to be associated with the sector suggest that up to 1.4 million people should flow from these sources (see *Appendix 5*) into the Financial Services sector. However, the distribution of people from these sources is more likely to be associated with lower and intermediate occupations. Reference already made to the segmented labour market, high labour turnover and minimum levels of skills training are important in this respect.

Consideration of the public sector role in potentially helping the industry address these issues would therefore appear opportune to say the least. The remaining source of supply is dependent on the education sector which we would expect to provide the key source of higher level skills.

5.6.2 Graduate flows into Financial Services

Graduate flows to the Financial Services sector are dominated by two key factors: first, is that UK domiciled students provide the majority of intake into the sector; secondly, the population projections imply an ageing population with a particular focus in this sector of people aged between 20 and 39. **Consequently, competition for graduates is likely to intensify.** In terms of the demand for skills, the share of graduate intake to the sector at the higher occupational level will need to expand relative to the fall in the number of young people entering the labour market. An analysis identifying the number of students participating in designated financial and business courses and flowing from higher education into the Financial Services sector should provide an initial order of magnitude of the future supply of young highly qualified people to the sector. *Table 15* below provides an overall summary of HE student first destinations to Financial and Professional Services sectors.

The results suggest that:

- ▶ of nearly 160,000 total leavers from the HE sector in 1998, around 50,000⁴⁹ entered Financial Services. Using reasonable assumptions on student trends to the HE sector, relevant courses and intake to the Financial Services sector this would yield some 550,000 students eligible for the Financial Services sector between 1998 and 2009;
- ▶ similarly for the FE sector, analysis of very limited data suggests that some 40,000 students would flow into the Financial Services sector.

However, there is evidence within this analysis which suggests a small decline in the intake of students attending vocationally relevant courses for Financial Services. Since 1994 the sector has been able to attract greater numbers of HE students from a more diverse set of courses. With the possibility of greater competition for HE students from the Business Services side of Professional Services, the sector may be faced with challenges in terms of maintaining its share of HE students and of providing an

Table 15 : First Destinations of UK Domiciled HE Students 1997-98

	Financial Activities	%	Professional Services	%	Financial & Professional Total	%	All HE Students	Financial & Professional as % of All
Corporate managers & admin	2,383	22.6%	4,578	15.4%	6,961	17.3%	23,172	30.0%
Professional	1,100	10.4%	10,324	34.7%	11,424	28.4%	58,732	19.5%
Associate professional	2,533	24.0%	7,302	24.6%	9,835	24.4%	33,874	29.0%
Clerical and secretarial	3,776	35.8%	5,266	17.7%	9,042	22.4%	20,554	44.0%
Craft and related	57	0.5%	261	0.9%	318	0.8%	1,544	20.6%
Personal and Protective	16	0.2%	183	0.6%	199	0.5%	6,141	3.2%
Sales	391	3.7%	678	2.3%	1,069	2.7%	8,710	12.3%
Plant and Machine Operatives	8	0.1%	135	0.5%	143	0.4%	944	15.1%
Other Occupations	40	0.4%	171	0.6%	211	0.5%	2,003	10.5%
Unknown	257	2.4%	835	2.8%	1,092	2.7%	3,079	35.5%
Total	10,561	100.0%	29,733	100.0%	40,294	100.0%	158,753	25.4%

Source: HESA/KPMG 2001

attractive employment proposition. **Against which there is evidence highlighting that the industry is starting to forge links with the HE sector. Development of such partnerships provide an important perspective for meeting skills supply issues in the future.**

5.6.3 Regional Perspective

The UK has two key regional centres for Financial Services - London/the South East and Scotland, with other smaller regionally significant clusters as noted earlier in the report. Despite this, it would appear that the degree to which skills shortages emerge is fairly random. Wales, with a relatively small Financial Services sector, has some difficulty meeting the employment demand for basic Call Centres within parts of the region.

Growth in Retail, mainly through Call Centre activity, is a significant feature of future growth in the sector over the forecasting period. The demand for skills within the Call Centre market is mixed but not at the elementary level. Indeed most require graduate level skills in cases where the role goes beyond selling and the minimum regulatory requirements. As in the overall assessment of supply it would appear that all the regions will require their fair share of qualified people to support the industry.

Table 16 provides a profile of student destination by region following qualification.

49 This is based on the sum of students flowing from Financial Activities (10,561) plus Professional Services (29,733) and grossing-up adjustment (0.83) allowing for the fact that this is a sample survey.

Table 16: Student destinations by region, 1997-98 (All sectors)

	UK domiciled	%
North	5,104	3.4%
North West	11,196	7.5%
Yorkshire & Humberside	9,223	6.2%
West Midlands	9,656	6.5%
East Midlands	7,868	5.3%
South West	9,143	6.1%
East Anglia	3,696	2.5%
South East	21,920	14.7%
Greater London	22,028	14.8%
Other UK	27,712	18.6%
Wales	6,054	4.1%
Scotland	11,235	7.6%
N. Ireland	3,553	2.4%
Other	381	0.3%
Total	148,769	100.0%

Source: HESA/KPMG 2001

Applying these proportions to the student outturn figures for Financial Services suggests that the greatest share of students actually flow to the key Financial regions⁵⁰.

What we can conclude from this analysis is that in total, and taking account of the workforce trends, matching the overall numbers would suggest that net requirement demand would be met through current and projected supply channels. This would appear to be consistent with the current sentiments in the sector about the availability of skills. However, the Financial Services sector will potentially face a greater challenge to secure its share of HE students in the future. The industry is therefore likely to continue broadening the scope of student intake by subject area. London/South East as well as Scotland should expect to continue to take a sizeable share of HE students and this no doubt will include flows into the Financial Services.

50 There is no separate information on student destination by sector and region.

5.7 Conclusion

Analysing the supply side within the Financial Services sector is not straightforward, the following points are relevant however:

- ▶ the Financial Services sector is inherently professionally driven, perhaps even more so given the growing regulatory regime. For higher level occupations and beyond the intake of qualified students, the HE or public sector system plays a very small part in the training of the professional worker - which is delivered primarily through private sector providers or in-house;
- ▶ **the accreditation system plays a major role in maintaining standards and meeting regulatory needs.** There is a suspicion that this process is less dynamic than the market needs and this could potentially undermine the competitiveness of the sector in the future;
- ▶ a significant stock of qualified people provides a strong basis for supplying skills to the Financial Services sector in the future but within a context where current skill developments are driven largely by regulation and accreditation - which may not provide the best training framework solutions for a rapidly changing market and **which raises issues about future retraining and/or upskilling the current workforce**;
- ▶ the labour force is segmented within the industry. Relatively higher labour turnover at the intermediate and lower occupational levels results in training to minimum requirements only at these levels. Businesses currently seek non-wage strategies to reduce turnover rates to reduce costs especially in Call Centres - CDPs are highlighted as an important development;
- ▶ the sector appears to attract a significant proportion of UK domiciled HE students although, on the basis of recent trends in related study courses, the number of students studying vocationally relevant courses appears to be in slight decline. Combined with demographic change, this raises some issues for the sector concerning future graduate level supply with greater competition for HE skills likely to become more apparent. Recent partnerships with colleges perhaps highlight a future development potential;
- ▶ on the basis of reasonable assumptions associated with unemployment and workforce trends, and the maintenance of the general attractiveness of the sector, **Financial Services is unlikely to face acute skills supply problems**;
- ▶ London/South East is different to the rest of the UK - the core of the high value industry is within London and the South East, although Edinburgh also has a strong presence in the sector. These centres appear to attract the necessary higher level skills. The rest of the UK will provide opportunities mainly in Retail and Accountancy and in this regard skill supply issues will be somewhat localised;

- ▶ **Call Centres**, as a relatively recent development in the sector, are distinctly non-London based and can have a high demand for skills. Labour turnover in this respect is a major headache for the great part of the sector where wages are unlikely to feature within strategies to retain staff. **This is perhaps the biggest actual skills issue facing the sector alongside the need to attract a sizeable share of ICT and professional specialists and sourcing a supply of skills into the IFA profession;**
- ▶ finally, there is clearly an issue within the sector concerning the supply of skills as opposed to competence. Changes in the market are thought to require a more dynamic and responsive system of training that complements the technical, regulatory and professional requirements of the industry with **a focus on competence to do the job**. So-called generic skills are thought to be a necessary part of the competence framework covering behavioural, leadership and other relevant skills. Given that a significant share of current employment is likely to make up employment up to 2009, this raises issues of retraining.

6 Demand and Supply: Skill Shortages and Gaps

6.1 Recruitment and Skill Deficiencies

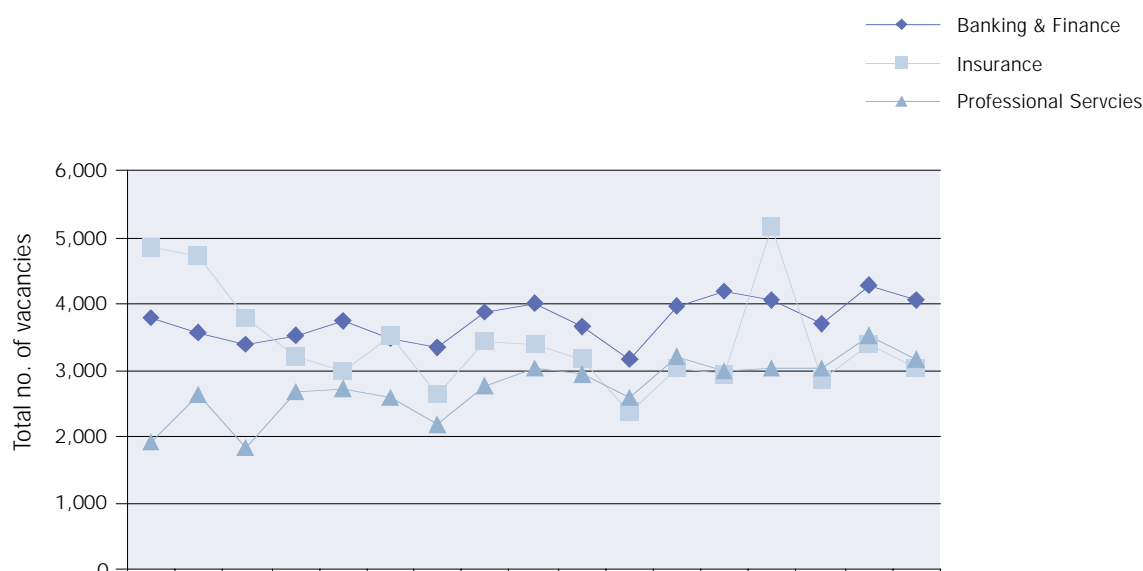
6.1.1 Introduction

This section considers the extent and nature of skill shortages within the Financial Services sector based on the available evidence on recruitment difficulties and hard-to-fill vacancies and employer views about the proficiency of their workforce. Statistical evidence is drawn mainly from the ESS⁵¹ data.

6.1.2 Recruitment and vacancies

In total, an estimated 37,500 vacancies were reported by Financial Services employers from the ESS survey (weighted data), representing approximately 1.5% of total employment in the sector⁵². Comparing this figure with vacancies at Employment Service Job Centres of just over 10,000⁵³ this would appear to be a fairly accurate estimate of total vacancies in the industry. The share of total vacancies relative to total employment in the sector is low (the equivalent for GB is 7.6%) reflecting the general response during the Dialogue. This appears to be a sector largely unaffected by skill shortages. *Figure 13* shows trends in notified vacancies since 1995 across the three Financial Services sub-sectors. It highlights a steady upward trend in both the Banking & Finance (6% increase) and the Professional Services (67% increase) sub-sectors. The Insurance sub-sector has experienced a downward trend of 37% in vacancies (see *Appendix 6*).

Figure 13: Total vacancies in the Financial Services sector in Great Britain (July 1995-July 1999)



Sources: ONS, Nomis

⁵¹ Employer Skills Survey.

⁵² Assuming total employment in Financial Services of 2.4 million people.

⁵³ Total notified vacancies to the Employment Service Job Centres are thought to cover roughly a third of total vacancies existing in the economy.

6.2 Recruitment Difficulties

Of particular interest perhaps to this Dialogue is the extent and nature of difficulties in recruitment rather than absolute vacancy levels (ie the former provides a more refined measure of potential skill problems). The majority of surveys use a measure of hard-to-fill vacancies as a proxy for this.

6.2.1 Level of hard-to-fill vacancies

With the total level of vacancies in the Financial Services sector in excess of 37,000, just under 14,500 are classed as 'hard-to-fill' (see *table 17*). Around 60% of hard-to-fill vacancies were related to genuine skills issues although this figure needs to be considered within the context of total employment of which they represent a very small proportion (less than 0.5%). It also needs to be considered in the context of other sectors where the problem is greater. For example the level of skill shortages in Manufacturing, Construction, Health & Social Care are considerably higher than in the Financial Services (see *Appendix 6*).

Table 17: Vacancies in the Financial Services sector

Nature of vacancy	Total number
Vacancies	37,449
Hard-to-fill vacancies	14,479
Skill related hard-to-fill vacancies	8,428
Skill related hard-to-fill vacancies (3 months duration)	3,835

Source: ESS/KPMG 2001

6.2.2 Occupational differences

The ESS analysis reveals a relatively consistent picture in respect of differences in hard to fill vacancies between occupations. The greatest difficulties are being experienced across four occupations as shown in table 18 below.

Table 18: Vacancies by occupation in the Financial Services sector

Occupation	% of Hard-to-fill vacancies	% of Skill shortage vacancies
Clerical & secretarial	36	30
Professional	20	21
Sales & related	18	18
Associate professional	15	20

Source: ESS/KPMG 2001

It is though of some concern that three of the four hard-to-fill occupations are those where there is a significant future net demand requirement. **It is therefore apparent that the current stock of skills is important as a basis for future supply as is the prospect of retraining amongst this group of people.**

6.2.3 Skills shortage vacancies

A number of themes emerged when employers in the ESS were questioned about the reasons for hard-to-fill vacancies, the main one relating to skill shortages. The three most important causes identified by employers are:

- ▶ the low number of applicants with skills - this is particularly related to professionals and associate professionals as well as clerical and secretarial (varies between 76% and 82% of employers);
- ▶ a lack of work experience - this also affects all three occupations (varies between 39% and 50% of employers); and
- ▶ a lack of qualifications - this mainly affects professionals (over 27% of employers).

To the extent that these issues were discussed during the Dialogue process (ie most responded that there were no acute skill issues) then these causes were confirmed alongside a feeling that many candidates lacked motivation and in particular a business perspective. Results from the Skills Foresight would appear to concur with these issues especially in terms of a lack of financial knowledge within the current education system.

6.3 Current Skills Required

More in depth analysis of hard-to-fill vacancies provided perhaps a better indication of the nature of skills requirements in the industry. A number of points emerged from this analysis (see *table 19*) including:

- ▶ the over-riding evidence of a lack of technical and other practical skills in almost all occupations, but especially in professional, associate professional, clerical and secretarial;
- ▶ a lack of advanced IT and software skills amongst professionals and associate professionals. A lack of basic computer literacy amongst clerical and secretarial staff;
- ▶ deficiencies in communication skills, customer handling skills and team working skills among professionals and clerical and secretarial applicants; also, numeracy and literacy skills;
- ▶ a shortage of managerial skills amongst professionals and associate professionals.

This picture also fits neatly with the earlier assessment covering demand for skills (see *Chapter 4*).

Table 19: The skills that Financial Services employers find most hard to find in professional, associate professional, clerical and secretarial occupations (%)

	Professionals	Associate professionals	Clerical and secretarial
Advanced IT and software skills	33	24	32
Other technical and practical skills	29	60	59
Communication skills	20	38	35
Team working skills	32	5	18
Management skills	49	28	8
Literacy skills	18	10	37

Source: ESS

The results confirm information gathered through other research on the sector and how the future supply of people to the industry need a mix of IT and generic skills. This puts into context other issues in respect of accreditation meeting regulatory rather than market needs in the future. It is also relevant that the ICT Dialogue is unclear about whether the supply of skills within this sector will be a future problem. The view currently is that there are plentiful supplies of IT specialists although this does not preclude a future shortage.

6.3.1 Impact of Current Recruitment Difficulties

Hard-to-fill vacancies across most occupations are causing difficulties for Financial Services employers in relation to various aspects of their business (see also *Appendix 6*). Several areas are identified, the most important of which include:

- ▶ delay in developing new products;
- ▶ difficulties in meeting customer service objectives;
- ▶ increased operating costs;
- ▶ difficulties in introducing technological change.

The most important issue is associated with client interface and this is consistent with our earlier comments on generic skills and customer focus. The most significant response to tackling difficult to fill vacancies is raising earnings - this is prominent across all occupations. However, the analysis highlights greater flexibility available in the professional or associate professional occupations vis-à-vis clerical and secretarial occupations to counter skill shortages. Increasing the wage is used as a panacea within the higher occupational skill shortage areas. But the Financial Services industry is increasingly anxious to move away from using wages at the intermediate and lower end of the market - confirming this view of a segmented labour force in the industry.

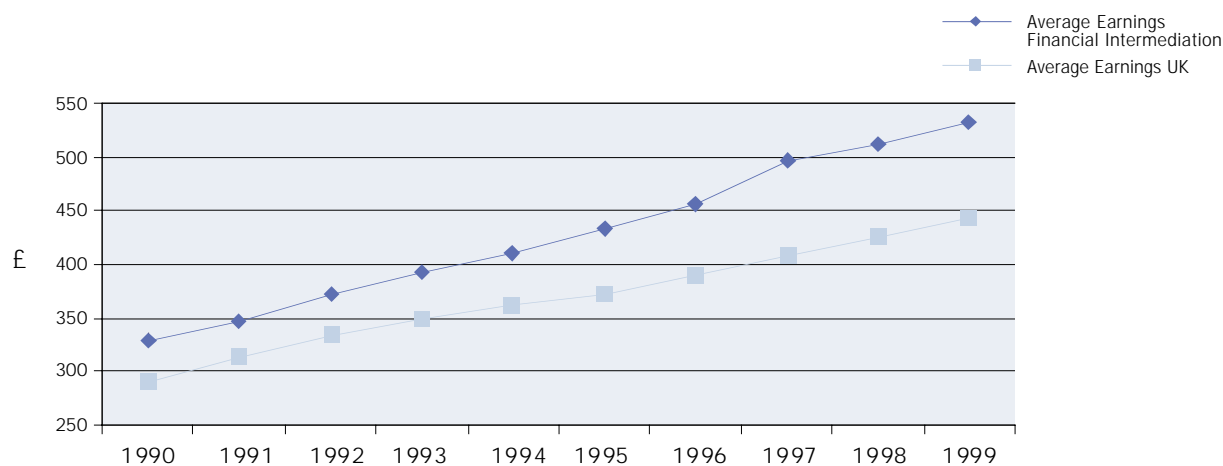
6.3.2 Earnings

Some Financial Services sub-sectors will continue to buy themselves out of trouble. This may be inconsistent with facing the challenges of globalisation and competition. Much of the sector will not be positioned to do this especially given the presence of a segmented workforce where tight margins and competition limit the options in this respect. However, an analysis of recent trends in earnings by occupation within Financial Services shows that:

- ▶ remunerations for some occupations are amongst the highest of any sector in the economy and have been so over a very long period - this is clearly recognised and has a regional bias towards London and the South East;
- ▶ therefore, despite the changes in the market, the sector is expected to continue to be attractive to prospective employees regardless of location - until recently the availability of skills has not been an issue and the level and growth of earnings has played a part in this respect;
- ▶ current data on overall weekly earnings for all full-time non-manual employees in Financial Intermediation ranks this sub-sector fourth⁵⁴ in the economy - male earnings under the same definition within the sector are significantly higher than for any other sector in the economy at 30% above the GB average;
- ▶ growth in earnings within the sector (overall full time non manual gross average weekly earnings) has also outstripped the average for the economy - 78% as opposed to the GB average of 67% between 1989-99;
- ▶ growth in male earnings (full time non manual gross average weekly earnings) was 73% whilst female earnings increased by 86% between 1989-99 which compares with the GB average of 62% and 78% respectively.

Figure 14 provides a summary analysis of trends in average weekly earnings of non-manual employees relative to the UK average between 1990-99.

Figure 14: Average Weekly Earnings, 1990-1999



Source: NES/KPMG

54 In reality Financial Intermediation is the second highest earning sector overall on an hourly basis - it comes second to manufacture of chemicals etc because of the differential hours worked

Clearly, this is fairly strong evidence of the noted detachment within the industry. Historically, it has been a very lucrative sector with the ability to attract the appropriate skills through demonstrating dynamic growth and keen pricing. The importance of understanding the emergent changes in the market cannot, therefore, be understated in terms of future HR development in the Financial Services sector. This is regardless of whether, ultimately, public bodies such as the RDAs and LSCs can support the sector. There is growing recognition within parts of the sector (eg Banking and Finance) that competition both domestically for skills and through external industry pressures will result in the need for a more strategic response to supply and demand conditions. However, there will be exceptions; quite clearly pricing will be important for parts of the sector and the supply of skills therein (ie ICT specialists) and little may change in this respect.

6.4 Current Skill Gaps

The other aspect of skills deficiencies is the existence of skills gaps amongst those already employed within the industry. This also puts into perspective the importance of retraining the current stock of people thereby providing the industry with the right set of skills to meet the future challenges. Given the dynamics in this market, the extent of change in technology, working practices and skill needs, then skills gaps are almost inevitable⁵⁵. However, skill gaps in some establishments might be seen as a positive indicator of dynamism and change as skill acquisition is unable to keep up with the speed of technological, product and organisational change. However, it is usually viewed more negatively as a limiting factor on businesses.

Those employers reporting skills gaps through the ESS survey highlighted the following occupations as having the greatest impact on their business (see *Appendix 6*):

- ▶ clerical occupations (50% of employers);
- ▶ managerial occupations (39% of employers);
- ▶ sales occupations (23% of employers);
- ▶ professional occupations (17% of employers).

Respondents who reported that not all or nearly all of their employees as being fully proficient for the current business indicated the impact of this as:

- ▶ failure to train/develop staff - reported most frequently, in particular amongst managers and sales staff;
- ▶ difficulty introducing new products or services, new working practices or new technologies - reported frequently amongst managerial staff, clerical staff and sales staff;
- ▶ recruitment problems, inability of the workforce to keep up with change or to obtain necessary skills - reported by around one-third of employers in each occupation.

⁵⁵ Above all else, this highlights the difficulty with forecasting skills demand. The causal relationship is not clear.

Employees across all occupations were reported to be lacking a range of generic skills. For example:

- ▶ communication skills (54%);
- ▶ customer handling skills (50%);
- ▶ team working skills (43%);
- ▶ problem solving skills (39%);
- ▶ management skills (34%).

These results would appear to be particularly relevant to the issues raised during this Dialogue especially in line with moving towards being client focused and the need to be creative and innovative.

6.5 Future Skill Shortages

6.5.1 Net demand and supply

Our assessment of the sector, encompassing the fundamental drivers alongside the expected demand and supply conditions, leads us to conclude that, with the exception of the Call Centre industry, the sector is unlikely to face acute skills shortages. More precisely, it is likely that the sector will be able to secure sufficient numbers of people to support the industry over the next ten years or so. *Table 20* below provides a summary analysis of the net demand and supply in terms of projected occupational distribution.

Table 20: Demand and Supply of Skills in key occupations within Financial Services - 1998-2009

Key Occupations	Net demand (%)	Net supply (%)
Corporate managers/ administrators	13.3	12.2
Professional	13.1	12.1
Associate professional	14.2	16.5
Clerical and secretarial	35.8	31.8
Other occupations	23.6	27.4

Source: IER/KPMG 2001

The largest potential shortage is expected within the administrative and clerical occupations. Issues of high labour turnover and lack of career progression within Call Centres are closely linked to these results (refer also to *table 5* above). Since demand and supply are closely matched for the remaining occupations then the analysis also tends to confirm why detachment is associated with large parts of this industry. The attractions of the sector, the prestige of London and the South East and the returns on human capital investment associated with a significant part of the sector ensures that generally, the sector faces limited skills problems. Consequently, the industry sees very little role for the public sector. However, such assertions and forecasts are based on current knowledge; the economy can and does change. There is recognition

particularly within some sub-sectors that the market is changing but whether this has instigated strategies to cope and adapt is unclear. Certainly if the institutional framework of professional accreditation is anything to go by, it is unlikely to have done so. There is also an issue about employer willingness to incorporate changes (eg competence) into mainstream training requirements. It is not clear whether this position can be maintained across the whole of the industry. It is though clear that the sector will go through more changes associated with some of the key drivers and in particular regulation and competition.

To the extent that the sector does indeed face some skills issues, it would be useful to give some consideration of where these are most likely to occur. This analysis appears to suggest that, if there are skills shortages, they are likely to be at the lower/intermediate occupational levels (ie clerical & administration occupations and distinctly linked to ICT developments). The differences between supply and demand at the higher occupational levels are not particularly apparent. There is reason to believe from this Dialogue that this assessment is reasonably reflective of the current and future position. In addition to these issues, the research has identified, at least anecdotally, that:

- ▶ regions such as Scotland, Wales and parts of the North of England are finding it difficult to source skills within discrete parts of the sector (eg Call Centres and Shared Services) due to a combination of strong growth and skill shortages, especially at the lower/intermediate occupational levels;
- ▶ there is growing concern that there are insufficient specialists - especially ICT - and managers with strong leadership skills to support the sector;
- ▶ this analysis does not fully convey the fact that trends in the workforce are changing and that staff retention strategies will be important in the future as competition intensifies for skills, especially at the lower/intermediate occupational levels where more acute hard-to-fill vacancies exist, and are likely to become more apparent (eg clerical & administration).

6.6 Future Skill Gaps

It is important to make the distinction between skills shortages and gaps. During the review process, a number of skills or attributes were highlighted as being unavailable to the sector. These are categorised as skills gaps. Evidence supporting future skill gap areas has come from employer consultations and sector reports. In particular:

- ▶ IFAs - experience and accreditation are fundamental features of the occupation. This part of the sector could, therefore, experience a skills gap as some IFAs are forced out of the profession through regulation and technology and the high levels of retirements given the apparent high average age of IFAs. A key feature of the shortage is the prospect of the traditional supply source (ie direct sales people) drying up through a shake out in this part of the industry with a resulting gap to fill for the future IFA profession;

- ▶ ICT - demand for ICT specialists is expected to grow not just within the Financial Services sector. Businesses seeking to maintain competitive advantage in Financial Services could face skills gaps where more innovative/creative development are needed although they will continue to have access to the price mechanism to solve their problems;
- ▶ Competence - as discussed previously, the industry recognises the need for competence to do the work which in turn requires broader based accreditation incorporating the development of generic and associated skills. There is a gap, not shortage, which will need to be addressed if the industry is to move in line with the global market;
- ▶ **Call Centres - a key gap in skill needs did emerge, perhaps presenting an opportunity for the public sector to support the industry.** There is no industry wide suite of qualifications for Call Centre roles and the related teleworking jobs. This seems to be an important gap which is thought to require urgent attention⁵⁶. However FS NTO have put forward a technical certificate for the sector as part of the MA framework. Alongside the role of ICT-related skills, customer care is one of the primary skill development areas for the sector. Generic skills associated with communication, client service, teamwork and so on, are fast becoming prized in the Retail part of the Financial Services sector. However, these are important skills across the whole of the Financial Services sector.

6.7 Impact of Future Skill Shortages

Table 21 illustrates the potential future impact of skills shortages. The data suggests less of an impact than current deficiencies are having although this is as much a measure of uncertainty about the future as anything else. A current tight labour market combined with the prospect of growth has a somewhat inevitable implication for this sector - an increase in earnings. The future impact of skills shortages does though reflect a concern about the quality of the client interface which has been a recurring theme throughout the Dialogue.

Table 21: Impact of skill shortcomings over the next two to three years

Impact	All finance establishments (%)
Loss of business/orders	18.1
Delay in developing new products	17.2
Withdrawal of products/service	6.0
Difficulties meeting customer service objectives	25.5
Difficulties meeting required quality standards	19.4
Increased operating costs	18.2
Difficulties introducing technological change	16.0
Difficulties introducing new work practices	14.3
None of these	54.0
DK/NS	1.4

Source: ESS/KPMG 2001

6.8 Conclusion

To summarise:

- ▶ Overall, the scale of vacancies in the Financial Services sector apart from Insurance has been steadily growing although this is likely to be the combined effect of a tighter labour market and growth more generally;
- ▶ however, the scale of hard-to-fill vacancies is small. **The sector has limited skills problems apart from those associated with high labour turnover in Call Centres;**
- ▶ where skills shortages are likely to emerge at the higher occupational levels the sector will almost certainly pay its way out of trouble although this is becoming less of an option within some sub-sectors such as Insurance, Accountancy and Call Centres;
- ▶ at the intermediate/lower skill levels, wages are not likely to be used for addressing skill shortages and the sector will be seeking to use other non-wage strategies to solve its problems (eg flexible hours). **The development of CDPs for Call Centres and related functions appears to be an important development need for the industry;**
- ▶ whilst ICT and management skills are highlighted as key future skill requirements, it is apparent that the strongest demand is for generic skills. Yet development of these skills may be left to the individual whilst the industry focuses on its accreditation and regulatory needs. This has implications for the current and future workforce in terms of skills training and development needs;
- ▶ this points again to a need for change - updating the accreditation system to include broader based competence appears high on the list - although the impact of skills shortages is by all accounts thought to be potentially minimal, the most apparent being the ability to meet customer service objectives;
- ▶ finally, IFAs and Call Centres provide some opportunities for the public sector to bridge apparent gaps in the training, skills and qualification framework where these are particularly locally or regionally based.

The analysis of the demand and supply of skills in the Financial Services sector suggests that the sector should expect limited problems in meeting its skills needs in the future. In reality, the dislocation between what we know now and what we expect to take place in the medium term indicates that we should be cautious on this. There are tensions between supply and demand; **regional agencies seeking to support this sector should be prepared to consider their options where the sector is receptive to support.** Essentially, the Financial Services sector is capable of attracting sufficient people to support the industry; the key question is whether the industry can attract or produce the right skills to support its future prosperity in an increasingly dynamic global economy.

7 Conclusion

7.1 Introduction

The Financial Services Sector is amongst the leading global industries in the UK. London and the South East region compare favourably with any other European financial centre. The sector is strong in the UK and nothing that has been said or researched during the Dialogue leads us to conclude otherwise. The aims of the Dialogue are to provide an opportunity for those involved and capable of instigating change and/or support for the sector to air views, issues and options for its future development.

7.2 Background

- ◉ Broadly defined, the industry employs around 2.4 million people contributing over £90bn to the UK GDP. Employment is divided between three key sub-sectors: Banking and Finance (640,000), Insurance (260,000) and Professional Services (1,530,000). Regionally, London/South East and Scotland are the key UK financial centres taking nearly 50% of employment and covering all the high value elements of the industry. Important recent developments in the industry have been the introduction of Call Centres and other ICT-related channels, the impact of Government legislation and regulation and the growing integration of the industry leading to widespread mergers and consolidation;
- ◉ The Financial Services sector has been a flagship industry for the UK economy particularly over the last 20 years, contributing positively towards both employment and output during that period. Progress has not been altogether uniform across all sub-sectors with Banking and Insurance experiencing employment losses following the recession and consolidation of the early 1990s - these sub-sectors continue to face challenges whilst the more domestically focused Professional Services appears to have had a more favourable run-up to the new millennium;
- ◉ Overall, future prospects across the industry are reasonably positive. Forecasts suggest that employment should grow by over 600,000 to over 3 million by 2009 although discussions during the Dialogue would reduce the scale rather than the direction of this forecast. Banking & Finance and Insurance are expected to grow by around the UK average (9%) whilst Professional Services is expected to grow well above average (36%) between 1998-2009;
- ◉ Productivity and cost pressures are growing in the industry and this is, within some parts of the sector (ie Banking & Finance), a prelude to further consolidation. It is therefore not the stable employment environment that it once was. Key drivers in the sector associated with globalisation, competition, ICT, client focus and regulation makes this a far more precarious albeit dynamic sector to be involved in compared to even five years ago;

- ▶ The role of the public sector is currently limited. This is partly because of the success that the industry has achieved independently over the years and partly because of the perceived unresponsiveness of public sector support and ambivalence towards the products and services it may have to offer (eg NVQs/SVQs).

7.3 Demand Issues

- ▶ skills and occupational needs are expected to change in response to key industry drivers, in particular to the impact of ICT, competition and the regulatory regime. However, there is reason to believe that the industry will do the minimum itself in terms of skilling and upskilling the workforce and that responsibility for much of the value-added development will transfer to the individual as a means of enhancing employability and an ability to deal with change;
- ▶ employability in the industry will include a mix of core (vocational/technical) and non-core (generic) skills. Generic skills may be acquired from the marketplace but, more realistically, the industry is likely to focus on securing highly qualified people to ensure core accreditation/skills are in place and take an *ad hoc* approach to other development needs. Taking an ad hoc approach to developing competence to both meet the needs of the individual and market is thought to carry a significant level of risk;
- ▶ Overall, the sector will need to meet a net demand requirement of nearly 1.8 million people over the next 10 years or so; a number of skills and occupations are highlighted in terms of expansion and overall net requirements, in particular -
 - ▶ high and medium specialist level ICT skills will be in great demand in the future across the whole of the industry and particularly related to professional/associate professional occupations;
 - ▶ corporate management, professional and associate professional occupations will be a feature of expansion and net requirement demand in the industry with skill requirements incorporating high quality management, new technical, ICT and generic skills encompassing a range of requirements from leadership to communication skills;
 - ▶ clerical and administration occupations will experience significant change - less so in terms of expansion demand, but primarily through replacement demand. It is also likely that these developments will be associated with Call Centre activity and other ICT user-related professions which may be the main focus of demand for generic skills. This will provide a real challenge to the industry since high labour turnover means less training or a greater responsibility for training passed down to individual employees themselves;
 - ▶ growth amongst elementary occupations is also expected industry wide and to a lesser extent therefore similar issues apply as above;

- ▶ female employment is expected to continue growing, especially within the Professional Services industry. The Dialogue provided a very clear indication that the industry was not biased towards a particular gender or ethnic group and that opportunities were open.
- ▶ The industry will continue to demand experience. This is no more apparent than in the IFA/tied agent profession. Whilst contradicting views have emerged during the Dialogue in respect of the future provision of advice, the IFA role appears strong and in turn, future demand for experience will remain high alongside the need to upskill to the more dynamic needs of the market;
- ▶ Finally, the industry will continue to demand more highly qualified people in order to maintain competitive advantage.

7.4 Supply Issues

There are a number of important features of training and skills development within the Financial Services sector:

- ▶ it is inherently professionally-driven, hence the presence of a significant accreditation system which is specific to the sector;
- ▶ training is delivered primarily through in-house systems or private sector providers;
- ▶ the public sector in terms of the LSCs, the RDAs and the education sector rarely have a role in providing training and skills development support in Financial Services⁵⁷. The sector could legitimately describe itself as self-contained and, from the employer consultations, it is clear that the sector for the most part, is happy with this position;
- ▶ the accreditation system plays a major role in maintaining standards and meeting regulatory needs and this provides comfort to employers. The Dialogue identified that this process is less dynamic than it could or ought to be given the industry drivers and changes expected in the market. This could potentially undermine the competitiveness of the sector in the future. In terms of what the public sector has to offer, then NVQs/SVOs, Modern Apprenticeships and other related schemes have only a limited role within this market and appear to have a branding problem across most of the industry;
- ▶ the industry is a significant technical trainer - a position consolidated by more regulation. But, whilst training levels are higher than the national average, evidence suggests that this is less so at managerial, clerical & administrative levels. The labour force is thought to be occupationally segmented within the industry. Relatively higher labour turnover at the intermediate and lower occupational levels results in training to minimum requirements only at these levels - a particular feature of Call Centres;
- ▶ In terms of future supply, there are three key sources: the existing workforce, the external pool of labour and the education system. The research suggests that Financial Services is unlikely to face acute skills supply problems in the future;

⁵⁷ It should be highlighted that the Accountancy sector makes extensive use of public sector provision - comments therefore reflecting the industry's detachment from public sector support is not therefore necessarily a reflection of the Accountancy profession.

- ▶ a significant stock of qualified people provides a strong basis for supplying skills to the Financial Services sector in the future. An inert training system may not provide the best training framework solutions for a rapidly changing market and raises issues about future retraining and/or upskilling. This is a particular issue where labour turnover is high or where, historically, training has been less important;
- ▶ the industry's workforce is highly qualified - 89% of the workforce is qualified to GCSEs grades A-C or equivalent compared to 75% for the UK - and it attracts a significant proportion of UK domiciled HE students (ie 25%). On the basis of recent trends in related study courses, the number of students following vocationally relevant courses appears to be in slight decline. Combined with demographic change, this raises some issues for the sector concerning future supply with greater competition for HE skills likely to become more apparent. Recent partnerships with colleges highlight a future development potential. The industry also appears to be attracting a more diverse group of HE qualified people in order to avoid the possibility of serious skill shortages emerging;
- ▶ the main regional financial centres appear to attract the necessary higher level skills. The rest of the UK will provide opportunities mainly in Retail and Accountancy and in this regard skill supply issues will be somewhat localised. Significant demand particularly for females raises issues concerning the supply of people expected from the external labour pool which suggests that initiatives to assist women returners could, for example, be a valuable source of support;
- ▶ finally, there is clearly an issue within the sector concerning the supply of skills as opposed to competence. Changes in the market are thought to require a more dynamic and responsive system of training that complements the technical, regulatory and professional requirements of the industry with a focus on competence to do the job. Given that a significant share of current employment is likely to make up employment up to 2009, this raises issues of potential skills gaps and the need for retraining.

7.5 Key Issues between Demand and Supply

7.5.1 Overall

- ▶ The scale of vacancies in the Financial Services sector, apart from Insurance, has been steadily growing although this is likely to be the combined effect of a tighter labour market and growth more generally and not acute skill shortages or problems. The sector faces limited skills problems apart from those associated with Call Centres. Where it has previously faced skill problems, the industry has dealt with these itself. The scale of hard-to-fill vacancies is relatively small.

7.5.2 Skill Shortages

To the extent that skill shortages are expected to feature in the industry then:

- ▶ where skills shortages are likely to emerge at the higher occupational levels the sector will almost certainly pay its way out of trouble, although this is becoming less of an option within some sub-sectors such as Insurance, Accountancy and Call Centres. From the analysis, key areas where shortages are likely include ICT,

technical and high quality managerial skills linked to corporate management, professional and associate professional occupations across the whole industry but in particular the sub-sectors already noted;

- ▶ at the intermediate/lower occupational levels, wages are not likely to be used for addressing skill shortages and the sector will be seeking to use other non-wage strategies to solve its problems. These problems are especially linked to the Banking & Finance and Insurance sub-sectors and related Call Centre industries where ICT user skills are in high demand;
- ▶ Call Centres, as a relatively recent development in the sector, are distinctly non-London based and can have a high demand for skills which, in some regions have caused significant problems. Labour turnover is a major issue. Call Centre specific CDPs are highlighted as an important development to address this problem. This is perhaps the biggest actual skill supply issue facing the sector alongside the need to attract a sizeable share of ICT and professional specialists, and sourcing a supply of skills into the IFA profession;
- ▶ High expectations for female employment raises some issues concerning the future potential supply of people to the industry - especially where these are associated with for example the Call Centre industry;
- ▶ Stronger competition for highly qualified people from the HE/FE sectors could be a source of concern especially where increasing the wage is less of an option and where the skills are more transferable as the industry attracts a wider base of graduates. Shortages here will be linked mainly to the professional and associate professional occupations with high level technical, ICT, management and related skills.

7.5.3 Skill Gaps

- ▶ The strongest demand is for generic skills incorporating communication, customer handling, team working, problem solving, leadership and general management skills. It is also apparent that these skill shortages, or gaps if referring to the current stock of skills, are likely to impact at the heart of the industry's future (ie client focused service). It is an industry wide problem. Yet, from the supply side analysis, the development of these skills may be left to the individual whilst the industry focuses on its accreditation and regulatory needs. This has important implications for the industry and the current and future workforce in terms of skills training and development needs;
- ▶ IFAs - experience and accreditation are fundamental features of the occupation. This part of the sector could, therefore, experience a skills gap as some IFAs are forced out of the profession through regulation and technology and the prospective high levels of retirement. A key feature of the shortage is the prospect of the traditional supply source of direct sales people drying up with a resulting gap emerging;

- ▶ ICT - demand for ICT specialists (ie professional and associate professional occupations) is expected to grow not just within the Financial Services sector. Businesses seeking to maintain competitive advantage in Financial Services could face skills gaps where more innovative/creative development is needed although they will continue to have access to the price mechanism to solve their problems;
- ▶ Competence - the industry recognises the need for competence to do the work which in turn requires a broader based accreditation which incorporates the development of generic and associated skills. There is a gap which will need to be addressed if the industry is to move in line with the global market;
- ▶ There will be a growing need for a more educated/highly qualified workforce within the industry with more holistic skills. In effect, there is a mismatch between what is happening industry wide and the response which the UK industry wishes to take. This in its own right will reinforce current and future skills gaps.

The analysis of the demand and supply of skills in the Financial Services sector appears to suggest that the sector should expect limited problems in meeting its skills needs in the future. There are tensions between supply and demand; regions seeking to support this sector should be prepared to consider the options where the sector is receptive to support. Essentially, the Financial Services sector is capable of attracting sufficient people to support the industry; the key question is whether the industry can attract or produce the right skills to support its future prosperity in an increasingly dynamic global economy. The following highlights a list of possible future actions which the relevant industry organisations could consider.

7.6 Action Areas

We consider in this section possible options for action which relevant organisations can take to address some of the issues highlighted in this report. **There is a perception that the role of the public sector is minimal. In reality there are a number of opportunities available for the industry to seek valuable support from the public sector.**

A fundamental starting point is the need for partnership between organisations in order to seize the opportunities to bring the private and public sector together where synergy exists. Partnerships need to be developed at different levels. A number of examples where more work could be done through partnership activity include:

- ▶ Scotland has harnessed the benefits of the vocational qualification system in a way which has not taken place in the rest of the UK and this should be explored further;
- ▶ Parts of the industry are starting to broker relationships with colleges and this could be explored further and developed especially where skill shortages or gaps are anticipated;
- ▶ Greater partnership between those leading in the accreditation process and the industry would assist the development of exemplars in skills and training. A crucial benefit of which would be a greater tendency to lead rather than be led by the regulatory system; and

- ▶ Partnership is clearly required to assess the degree to which competency can or needs to be adopted within the current system of training.

The FSNTO should have a major role in assisting partnerships and networking between the industry, the accreditation system and the public sector.

As part of the partnership process, **Dialogue and Communication** should be supported across the industry. The results of this Dialogue indicate that this sector has little trouble in hiring the right people by paying premium rates - the possible exceptions being Call Centres, Insurance and Accountancy. It would appear that the sector is aware of this, explaining its apparent lack of incentive to discuss potential problems. The Dialogue has provided an opportunity to better understand what is happening in this sector on both sides (ie private and public) and examine whether there is a support role for the public sector. Better communication will bring benefits between the respective parties not only in networking terms but also in grasping the opportunity to engage partners. This will encourage the identification of areas where meaningful collaboration can take place.

The recently established FSNTO provides a major incentive draft to address some of the issues facing the industry. In particular, the recent FSNTO draft WDP highlights five key priority areas with which the FSNTO will want to work with relevant organisations to assist the future development of the industry. They include:

- ▶ Priority One: To promote the sector and entry to the industry;
- ▶ Priority Two: To review qualifications in the industry;
- ▶ Priority Three: To review competence within the industry;
- ▶ Priority Four: To improve the business management and enterprise for a small business;
- ▶ Priority Five: To improve the quality of information available upon which workforce development issues are identified.

In addition, we would highlight that the FSNTO has a potentially important communication role with Government and the regulator in setting the context for its own activities in this area and for future training and skills development within the industry. These priorities are directly related to the findings from this Dialogue process. Feedback during the Dialogue has been positive and encouraging to take these forward. It now requires support from all sectors to achieve the FSNTO's objectives.

Skill gaps and shortages - Whilst the analysis does not highlight acute problems in this area, there is a degree of uncertainty given strong demand elsewhere in the economy for skills. The potential gaps in ICT are of particular concern given the role this has in driving the whole of the sector forward. At one end of the scale it will mean basic ICT user skills associated with Call Centre activity and at the other end it is those specialist ICT skills where Accountancy and the rest of the sector will seek new products and innovations. The sector will increasingly be unable to support spiralling increases in wage costs except possibly at the highest level. It therefore needs to

understand what the market can reasonably be expected to supply for a given price and what skills it needs to stay ahead of the competition. In which case, retaining and retraining programmes working alongside strategies to attract younger highly qualified candidates and female returners need to be highlighted and supported.

Call Centres - There are mixed views about the longevity of Call Centres as a retailing and information provider. A particular view was that the Call Centre trend had peaked; from the research and consultation of the Dialogue this view is misplaced. The market is still strong and growing. However, there have been examples where investment projects have struggled to secure the right quality and quantity of skills to support these operations. This is therefore a significant skills issue associated with these operations particularly related to clerical and administration occupations. CDPs have been highlighted as one possible method of reducing turnover rates within the sector. We would highlight that more needs to be done to explore what other methods could be used to address this problem. The impact of reducing turnover within this section of the industry on the overall level of replacement demand and, therefore costs, could be significant.

IFAs - changes which have been highlighted concerning the supply of skills to the IFA profession suggests that the development of special initiatives for the sector should be considered. Its past history of relying on experience implies that it may struggle to develop alternative sources of supply.

The role of NVQ/SVQ in Financial Services - there is currently only a limited role for NVQs/SVQs within the Financial Services sector. This is thought to be a branding issue. Serious consideration is therefore required on the impact NVQ branding has on the ability of the public sector to support the industry. References and contributions to the work which is being undertaken in this area also need to be supported and promoted⁵⁸.

Lifelong Learning - changes within the industry suggests this is a major development area and one where the public sector has been particularly strong. **There would appear to be some opportunity here to develop links and ideas with the public sector (eg LSCs and RDAs).**

Appendix 1

Participating organisations

The following organisations contributed to the Dialogue Process in various ways, through providing specific labour market information, copies of reports, giving their views on issues and participating in the national seminar. The report authors are grateful for their valuable help and assistance in the project.

Accountancy NTO

Association of British Insurers

Association of Independent Financial Advisers

AUTIF

Banking and Finance Union

BBS NTO

British Bankers Association

British Insurance Brokers Association

Building Societies Association

Chartered Institute of Banking

Chartered Insurance Institute/Securities Institute

DfES

DTI

E-business/ITNTO

Enterprise & Lifelong Learning Development (Scotland)

FEFC

Financial Services Authority

FSNTO

General Insurance Standards Council

HM Treasury

Institute of Actuaries

Institute of Employment Research, University of Warwick

Institute of Insurance Brokers

International Underwriting Association

IRFS NTO

Life Insurance Association

Lloyd's of London

LSC Team
MSF (Union)
National Assembly for Wales
Northern Ireland Office
NTO NC
NTO Wales
Pensions Management Institute
Selected Regional Development Agencies
Schofield Associates
SCONTO
Scottish Enterprise Edinburgh & Lothian
Scottish Executive for NTO
Scottish Financial Enterprise
Scottish Office
TECs
Training and Employment Agency (Northern Ireland)
UMIST

We undertook employer consultations with representatives from:

- ▶ Banks
- ▶ Building Societies
- ▶ General Insurance
- ▶ Independent Financial Advisors
- ▶ Investment
- ▶ Life office
- ▶ Northern Ireland
- ▶ Pensions
- ▶ Scotland
- ▶ Wales

Appendix 2

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Appendix 3

Glossary

CAT	Charges, Access, Terms
CDP	Career Development Plan
DfES	Department for Education and Skills
DIG	Dialogue Implementation Group
ECB	European Central Bank
ESS	Employers Skills Survey
FE	Further Education
FSA	Financial Services Authority
GDP	Gross Domestic Product
HE	Higher Education
HESA	Higher Education Statistics Agency
HRD	Human Resource Development
ICT	Information, Communication, Technology
IER	Institute for Employment Research
IFA	Independent Financial Adviser
IMRO	Investment Management Regulatory Organisation
LSC	Learning & Skills Council
NTO	National Training Organisation
NVQ	National Vocational Qualification
ONS	Office for National Statistics
PIA	Personal Investment Authority
RDA	Regional Development Agency
SIC	Standard Industrial Classification
SOC	Standard Occupational Classification
TEC	Training & Enterprise Council

Appendix 4

Demand for Financial Services Skills

Table 1: Output by industry in the UK (£1995m)

	1971	1976	1981	1986	1991	1996	2001	2006
Banking & Finance	7783	12011	15637	22673	27967	30714	35752	42196
Insurance	7304	9007	11061	8972	14491	13756	16404	19038
Professional Services	14041	16249	19222	20425	24813	35996	48451	60187
UK	359180	397837	409324	485905	551133	618615	697358	806948

Source: *Regional Economic Prospects, Cambridge Econometrics, July 1999*

Table 2: Employment by industry in the UK (thousands)

	1971	1976	1981	1986	1991	1996	2001	2006
Banking & Finance	367	431	503	576	683	628	660	689
Insurance	201	194	220	223	277	244	267	280
Professional Services	959	1034	1122	1254	1430	1498	1677	1917
UK	24803	25226	24822	24832	26311	26526	27685	28825

Source: *Regional Economic Prospects, Cambridge Econometrics, July 1999*

Table 3: Productivity by industry in the UK (by person)

	1971	1976	1981	1986	1991	1996	2001	2006
Banking & Finance	21229	27884	31079	39334	40976	48926	54166	61262
Insurance	36427	46510	50344	40314	52253	56424	61500	68044
Professional Services	14634	15714	17135	16291	17355	24032	28899	31400
UK	14481	15771	16491	19567	20947	23321	25189	27995

Source: *Regional Economic Prospects, Cambridge Econometrics, July 1999*

Table 4: Employment by occupation - Banking & Finance

	1981	1991	1998	2004	2009
Corporate Managers	32232	51872	51168	52829	53542
Managers and Proprietors	24735	31907	24983	22591	19907
Science/Tech Professionals	4978	8246	8495	8960	9254
Health Professionals	54	72	85	102	115
Teaching/Research Prof.	1330	1902	2344	2916	3264
Business/Public Service Prof.	7735	11132	12251	14492	16309
Science Associate Prof.	1623	2293	2139	2195	2224
Health Associate Prof.	509	703	703	805	856
Protective Service Occs.	2554	3934	4087	4675	5150
Culture/Media/Sport Occs.	676	1038	1077	1204	1303
Bus/Public Serv. Assoc Prof.	15464	24742	26217	29548	32394
Admin & Clerical Occupations	277392	365461	343657	360177	374515
Secretarial & Related Occs.	54662	72399	62226	61680	60241
Skilled Agricultural Trades	57	80	64	59	58
Skilled Metal/Elec. Trades	2985	3987	3463	3381	3271
Skilled Construct. Trades	1589	2058	1757	1719	1669
Other Skilled Trades	8350	12843	15196	17520	19540
Caring Personal Service Occs.	169	219	195	200	201
Leisure/Oth Pers Serv Occs.	2666	3574	3157	3156	3125
Sales Occupations	15771	22538	21811	23274	24445
Customer Service Occupations	6866	8967	8254	8506	8749
Process Plant & Mach Ops	3355	4281	3877	4179	4428
Transport Drivers and Ops	4570	6512	6099	6224	6324
Elementary: Trades/Plant/Mach	3926	5060	4503	4891	5161
Elementary: Clerical/Service	28871	36707	36625	41993	46455
All Occupations	503119	682527	644433	677276	702500

Source: IER/KPMG 2001

Table 5: Employment by occupation - Insurance

	1981	1991	1998	2004	2009
Corporate Managers	19619	29066	30031	32769	35141
Managers and Proprietors	5829	7054	5813	5535	5158
Science/Tech Professionals	5836	8562	8743	9414	9993
Health Professionals	43	56	66	78	89
Teaching/Research Prof.	740	966	1071	1267	1415
Business/Public Service Prof.	5137	7125	8280	10491	12411
Science Associate Prof.	722	1107	1151	1256	1354
Health Associate Prof.	325	417	422	464	510
Protective Service Occs.	469	656	693	832	955
Culture/Media/Sport Occs.	360	575	669	786	891
Bus/Public Serv. Assoc. Prof.	41076	51654	47557	49732	51764
Admin & Clerical Occupations	69553	84309	79185	81878	84593
Secretarial & Related Occs.	23616	28213	24072	23022	21867
Skilled Agricultural Trades	4635	5405	4246	3942	3552
Skilled Metal/Elec. Trades	954	1216	1099	1131	1159
Skilled Construct. Trades	932	1092	924	912	900
Other Skilled Trades	1688	2231	2260	2468	2782
Caring Personal Service Occs.	1142	1609	1971	2348	2704
Leisure/Other Pers. Serv. Occs.	3108	4220	4731	5440	6093
Sales Occupations	18233	23680	21441	21874	22720
Customer Service Occupations	3148	3881	3525	3603	3683
Process Plant & Mach. Ops.	1840	2138	1934	2108	2272
Transport Drivers and Ops.	1099	1415	1378	1484	1593
Elementary: Trades/Plant/Mach.	1082	1253	1097	1112	1126
Elementary: Clerical/Service	8521	9422	8760	9282	9890
All Occupations	219707	277322	261119	273228	284615

Source: IER/KPMG 2001

Table 6: Employment by occupation - Professional Services

	1981	1991	1998	2004	2009
Corporate Managers	116197	171961	192502	230830	271027
Managers and Proprietors	45056	52524	46283	47891	48094
Science/Tech Professionals	64777	89568	101640	126314	153505
Health Professionals	9685	10157	10855	13474	15545
Teaching/Research Prof.	12151	15022	17311	21364	25600
Business/Public Service Prof.	67845	85168	96906	125675	155703
Science Associate Prof.	38245	49519	47624	50263	52297
Health Associate Prof.	11974	14253	16238	21020	25790
Protective Service Occs.	13184	16793	17495	22126	26196
Culture/Media/Sport Occs.	14541	21858	27665	36217	45758
Bus/Public Serv. Assoc. Prof.	98727	137935	163909	209718	261128
Admin & Clerical Occupations	187091	230604	249108	284909	318472
Secretarial & Related Occs.	156051	200213	207313	223527	234646
Skilled Agricultural Trades	2340	2842	2696	2883	3076
Skilled Metal/Elec. Trades	37009	40557	34260	35055	36436
Skilled Construct. Trades	20382	21735	18032	18565	19229
Other Skilled Trades	15143	20430	23908	34911	65284
Caring Personal Service Occs.	990	1347	1570	1877	1946
Leisure/Other Pers. Serv. Occs.	26672	35970	44628	48703	23547
Sales Occupations	22482	30440	33251	40112	46393
Customer Service Occupations	6733	8445	9138	10553	11935
Process Plant & Mach. Ops.	31821	32544	28120	31224	34460
Transport Drivers and Ops.	25345	30014	27912	30596	33771
Elementary: Trades/Plant/Mach.	31533	27518	20088	20860	24048
Elementary: Clerical/Service	65853	82294	94183	115715	145977
All Occupations	1121827	1429711	1532635	1804382	2079863

Source: IER/KPMG 2001

Table 7 : Occupational breakdown of employment in Financial Services vs.UK in 1998 (%)

	Corporate Managers	Business and Public Service Professionals	Business and Public Service Associate Professionals	Administrators and Clerical	Secretarial and Related	Elementary Clerical and Service Occupations
UK	9.7	2.5	4.9	10.5	4.3	9.6
Professional Services	12.5	6.3	10.6	16.2	13.5	6.1
Banking and Finance	7.9	1.9	4.0	53.3	9.6	5.6
Insurance	11.5	3.1	18.2	30.3	9.2	3.3

Table 8: Replacement demand - Banking & Finance

Period: 1998 - 2009 (absolute levels)	Base year employment	Expansion demand	Replacement demand	Net requirement
Corporate Managers	51168	2374	21944	24318
Managers and Proprietors	24983	-5076	10003	4927
Science/Tech Professionals	8495	759	3143	3902
Health Professionals	85	30	33	63
Teaching/Research Prof.	2344	920	927	1847
Business/Public service Prof.	12251	4058	4332	8390
Science Associate Prof.	2139	85	762	847
Health Associate Prof.	703	153	363	516
Protective Service Occs.	4087	1063	2624	3687
Culture/Media/Sport Occs.	1077	226	482	708
Bus/Public Serv. Assoc. Prof.	26217	6177	11653	17830
Admin. & Clerical Occupations	343657	30858	171878	202736
Secretarial & Related Occs.	62226	-1985	35877	33892
Skilled Agricultural Trades	64	-6	28	22
Skilled Metal/Elec. Trades	3463	-192	1874	1682
Skilled Construct. Trades	1757	-88	640	552
Other Skilled Trades	15196	4344	6707	11051
Caring Personal Service Occs.	195	6	84	90
Leisure/Other Pers. Serv. Occs.	3157	-32	1219	1187
Sales Occupations	21811	2634	9199	11833
Customer Service Occupations	8254	495	4812	5307
Process Plant & Mach Ops.	3877	551	1507	2058
Transport Drivers and Ops.	6099	225	2649	2874
Elementary: Trades/Plant./Mach.	4503	658	1790	2448
Elementary: Clerical/Service	36625	9830	19781	29611
All Occupations	644433	58067	314307	372374

Source IER/KPMG 2001

Table 9: Replacement demand - Insurance

Period: 1998 - 2009 (absolute levels)	Base year employment	Expansion demand	Replacement demand	Net requirement
Corporate Managers	30031	5110	13071	18181
Managers and Proprietors	5813	-655	2447	1792
Science/Tech Professionals	8743	1250	3218	4468
Health Professionals	66	23	26	49
Teaching/Research Prof.	1071	344	335	679
Business/Public service Prof.	8280	4131	2951	7082
Science Associate Prof.	1151	203	422	625
Health Associate Prof.	422	88	191	279
Protective Service Occs.	693	262	447	709
Culture/Media/Sport Occs.	669	222	304	526
Bus/Public Serv. Assoc Prof.	47557	4207	20862	25069
Admin. & Clerical Occupations	79185	5408	39960	45368
Secretarial & Related Occs.	24072	-2205	13843	11638
Skilled Agricultural Trades	4246	-694	1645	951
Skilled Metal/Elec. Trades	1099	60	598	658
Skilled Construct. Trades	924	-24	318	294
Other Skilled Trades	2260	522	972	1494
Caring Personal Service Occs.	1971	733	768	1501
Leisure/Other Pers. Serv. Occs.	4731	1362	1875	3237
Sales Occupations	21441	1279	8472	9751
Customer Service Occupations	3525	158	2027	2185
Process Plant & Mach. Ops.	1934	338	797	1135
Transport Drivers and Ops.	1378	215	608	823
Elementary: Trades/Plant/Mach.	1097	29	497	526
Elementary: Clerical/Service	8760	1130	4709	5839
All Occupations	261119	23496	121364	144860

Source: IER/KPMG 2001

Table 10: Replacement demand - Professional Services

Period: 1998 - 2009 (absolute levels)	Base year employment	Expansion demand	Replacement demand	Net requirement
Corporate Managers	192502	78525	86078	164603
Managers and Proprietors	46283	1811	21411	23222
Science/Tech Professionals	101640	51865	37907	89772
Health Professionals	10855	4690	4206	8896
Teaching/Research Prof.	17311	8289	5767	14056
Business/Public service Prof.	96906	58797	34547	93344
Science Associate Prof.	47624	4673	15055	19728
Health Associate Prof.	16238	9552	7655	17207
Protective Service Occs.	17495	8701	11319	20020
Culture/Media/Sport Occs.	27665	18093	12574	30667
Bus/Public Serv. Assoc Prof.	163909	97219	73967	171186
Admin & Clerical Occupations	249108	69364	127248	196612
Secretarial & Related Occs.	207313	27333	119840	147173
Skilled Agricultural Trades	2696	380	1226	1606
Skilled Metal/Elec. Trades	34260	2176	18692	20868
Skilled Construct. Trades	18032	1197	6666	7863
Other Skilled Trades	23908	41376	11021	52397
Caring Personal Service Occs.	1570	376	641	1017
Leisure/Other Pers. Serv. Occs.	44628	-21081	17903	-3178
Sales Occupations	33251	13142	14096	27238
Customer Service Occupations	9138	2797	5400	8197
Process Plant & Mach Ops	28120	6340	11095	17435
Transport Drivers and Ops	27912	5859	12429	18288
Elementary: Trades/Plant/Mach	20088	3960	8120	12080
Elementary: Clerical/Service	94183	51794	51076	102870
All Occupations	1532635	547228	715939	1263167

Source: IER/KPMG 2001

Table 11: Net Sub-Sector Requirement in the Financial Services Sector 1998-2009

	Proof Net requirement	Insurance Net requirement	B & F Net requirement	Total Net requirement
Corporate Managers	164603	18181	24318	207103
Managers and Proprietors	23222	1792	4927	29941
Science/Tech Professionals	89772	4468	3902	98142
Health Professionals	8896	49	63	9007
Teaching/Research Prof.	14056	679	1847	16582
Business/Public Service Prof.	93344	7082	8390	108815
Science Associate Prof.	19728	625	847	21200
Health Associate Prof.	17207	279	516	18002
Protective Service Occupations	20020	709	3687	24417
Culture/Media/Sport Occupations	30667	526	708	31901
Bus/Public Service Assoc Prof.	171186	25069	17830	214085
Admin & Clerical Occupations	196612	45368	202736	444717
Secretarial & Related Occupations	147173	11638	33892	192703
Skilled Agricultural Trades	1606	951	22	2579
Skilled Metal/Elec Trades	20868	658	1682	23208
Skilled Construct. Trades	7863	294	552	8708
Other Skilled Trades	52397	1494	11051	64942
Caring Personal Service Occupations	1017	1501	90	2609
Leisure/Other Personal Service Occupations	-3178	3237	1187	1246
Sales Occupations	27238	9751	11833	48822
Customer Service Occupations	8197	2185	5307	15688
Process Plant & Mach Ops.	17435	1135	2058	20628
Transport Drivers and Ops.	18288	823	2874	21985
Elementary: Trades/Plant/Mach.	12080	526	2448	15054
Elementary: Clerical/Service	102870	5839	29611	138319
All Occupations	1263167	144860	372374	1780402

Source: IER /KPMG 2001

Appendix 5

Supply of Financial Services Skills

Table 1 below highlights the scale of training by industry (ie Financial Services narrow based definition - Banking & Finance; Insurance; Financial Intermediation; and Accountancy) within the UK and the scale of training in relation to each occupation within the industry and the UK (ie row per cent - see also *footnote 1*).

Table 1: Education and Training in the Financial Services by Occupation - (LFS Spring 2000)

	UK Training	FS training	UK ratio	FS ratio
1 Managers and administrators (row per cent)	14.9% 14.0%	17.3% 18.0%	0.91	0.89
2 Professional occupations (row per cent)	20.3% 28.0%	27.5% 30.0%	1.84	1.53
3 Associate professional & tech occupations (row per cent)	16.1% 23.0%	17.8% 22.0%	1.53	1.09
4 Clerical, secretarial occupations (row per cent)	13.6% 14.0%	33.8% 16.0%	0.93	0.83
5 Craft and related occupations (row per cent)	7.4% 9.0%	0.0% 0.0%	0.62	0.00
6 Personal, protective occupations (row per cent)	12.9% 18.0%	0.0% 0.0%	1.18	0.00
7 Sales occupations (row per cent)	7.6% 14.0%	3.7% 21.0%	0.92	1.08
8 Plant and machine operatives (row per cent)	3.9% 7.0%	0.0% 0.0%	0.43	0.00
9 Other occupations (row per cent)	3.2% 7%	0.0% 0%	0.44	0.00

Source: LFS

1 Column percent shows the occupational distribution of training in the UK and the Financial Services; the row percent shows the relative scale of training against employment in each occupation; and finally, the training ratio is a measure of training intensity - the ratio of training to the total share of employment in that occupation. A score >1 shows that training is above expectations and a score < 1 shows that the level of training is below expectation. Specifically, where:

Bo = Total training in the nominated occupation

Eo = Total employment in the nominated occupation

Eos = Share of total employment of the nominated occupation

Tx = Total training in the Financial Services.

Then: Bo/Tx = column percent, Bo/Eo = row percent, (Bo/Tx)/Eos = ratio

There are three key results to note here¹:

- ▶ the relatively lower number of people employed below the clerical and secretarial level within the Financial Services sector manifests itself within this analysis through a much higher proportion of training being conducted at the higher occupational level than for the UK as a whole - professional and clerical occupations taking up a 60% share of training within the Financial Services sector;
- ▶ an analysis of training by occupation provides a different perspective in that, for example, whilst clerical occupations take a 33% share of total training undertaken in the Financial Services sector during the survey period, this was only 16% of the total number of people in this occupational category;
- ▶ therefore, despite an apparently high level of training being conducted within the Financial Services sector (ie a ratio of >1 across two of the top four occupations), training intensity is less than the UK average for other significant Financial Services occupations bar that for Sales.

The following briefly outlines the calculations associated with estimating the future supply of people flowing from the workforce and unemployment pool² into the industry over the period 1998-2009. The analysis is broad based but provides a reasonably strong indication of supply side flows from these two sources.

Table 2: Population Projections for the UK, 1998-2011.

Population projections (millions)	1998	2011
UK	59.20	61.7
Below 16	12.10	11.3
16-64/59	36.40	38.5
64+/59+	10.70	11.9

Source: ONS/KPMG 2001

¹ See page 94

² A simplifying assumption here is that unemployment is assumed to include occupational mobility and is therefore a quasi measure of turnover elsewhere in the economy (ie a significant share of occupational mobility will be from employment to employment).

On the basis that activity rates in the UK stay broadly constant (and this is a reasonable assumption given the macro context) then the increase in the population over the next 10 years or so is expected to increase the workforce by about 1 million. Noting that there is a belief that the economy cannot expand much further from a labour market perspective (eg unemployment is unlikely to fall much further although there is still scope in terms of increasing activity rates) then the additional million in the workforce will therefore yield of the order of 940,000 total additional people in employment by 2011 - an average of 72,000 per annum.

Taking account of the projected distribution of employment across all sectors, the following highlights where additional supply of people may come from:

- ▶ increases in the workforce should yield approximately 7,000 per annum according to the Financial Services taking a fair share³ of additional supply. A total of just under 80,000 between 1998-2009 although as noted above, this will include a greater proportion of older people - in reality only about half of this number may be eligible to the sector (ie 40,000). We could assume that entrants into the industry from this pool would be broadly distributed (ie proportional to current⁴ employment) across all occupations;
- ▶ unemployment - under fairly broad assumptions⁵ a constant flow of just under 69,000 per annum (a total of 755,000 by 2009) could enter the Financial Services sector mostly at the intermediate occupational levels. Including flows from the elementary occupations increases the total by around 55,000 per annum (ie 600,000 in total) taking the total flow from the labour pool into the sector to 1.36 million. A high proportion of those flowing out of unemployment into the industry are likely to be closely related to high turnover within Call Centres - an estimate of over 50% (ie 400,000) of total unemployment flow is associated with administrative and clerical occupations.

In total therefore a reasonable estimate would suggest that growth in the workforce and entrants from the labour pool provides the Financial Services sector with additional supply of people of up to some 1.4 million by 2009. A key issue however within the context of the Financial Services is the scale of female demand and the degree to which we can expect flows from unemployment and workforce to match this. On the basis of the female flows into unemployment generally⁶ then a shortfall in the supply of females to the industry would be expected.

³ A fair share here is defined in terms of the share of total employment taken by business and Financial Services plus a small increment for growing attractiveness of the sector which is approximately 10%.

⁴ It could be argued that the distribution should be aligned with forecast future employment. However, these estimates are not conclusive and occupational shift is relatively small up to 2009.

⁵ This has been calculated using the total outflow of unemployment during 1999 (since we assume a steady unemployment state) and adjusting this for age (18-49 years inclusive) and occupation (SOC sub-minor groups: 10-15&19;16-17; 20-21; 24-29; 30-32; 33&35-39; 40-44&49;45-46; and 70-71 inclusive) and then for the expected entry into the sector proportional to 'forecast' employment - approx 10% on the broad definition of the sector (ie Banking & Finance; Insurance; and Professional Services). A similar methodology is used to calculate the flows of those within elementary occupations (ie SOC 91-99) to the Financial Services industry. It is assumed in this case that the occupation is not 'age sensitive' to the industry although this is likely to overestimate the total flow of people entering the industry from the unemployment pool.

⁶ Females make up approximately a quarter of total unemployment at any given period.

However, taking account that this is a broad definition of unemployment flows (see *note 3*) and given that the sector is biased towards female employment, then we would reasonably assume that it would attract a higher proportion of female unemployed from the labour pool. However, it would appear that this could be an area where the industry struggles to achieve its target numbers against which the industry is very clear about promoting equal opportunities. Overall, the evidence here suggests that it should be able to attract a sufficient supply of people.

Table 3: First Degree Leavers 1997-98 Entering Employment in the UK within the Financial Sector by type of course⁷

Course Type	Financial activities	%
Medicine	0	0.0
SAT Medicine	102	1.1
Biological Sciences	483	5.4
Veterinary	0	0.0
Agriculture	45	0.5
Physical sciences	490	5.5
Mathematical sciences	498	5.6
Computer Sciences	431	4.8
Engineering and Technology	318	3.5
Architecture	78	0.9
Social Sciences and Economics	1,314	14.7
Law	260	2.9
Business and Admin	1,886	21.0
Librarianship	133	1.5
Languages	681	7.6
Humanities	479	5.3
Creative Arts	269	3.0
Education	113	1.3
Combined	1,388	15.5
Total	8,968	100.0

Source: HESA/KPMG 2001

⁷ Data for the period 1994-99 shows the highest growth in those studying Biological Sciences and Creative Art and Design entering employment in Financial Services

Table 4: Change in vocationally relevant student numbers for Financial Services 1994-98

	UK domiciled students (%)	Total HE students (%)
Economics	-11.3	0.3
Business and Management Studies	0.0	0.2
Financial Management	5.8	16.0
Accountancy	-12.3	-6.5
Total Financial	-2.6	0.0
Total UK	13.1	14.9
Financial as % of overall total students	-13.9	-13.0
UK Financial students as a % of total students		-15.2

Source: HESA/KPMG 2001

Appendix 6

Demand and Supply: Skill Shortages and Gaps

Table 1: Number of vacancies in the Financial Services sector by sub-sector

	Financial intermediation	Insurance and funding	Activities auxiliary to financial intermediation	Other financial service activities	Total
Managers	1214	280	225	1592	3311
Professionals	378	266	167	5489	6300
Assoc Professionals	1059	1242	1029	2103	5433
Clerical & Secretarial	4681	3632	1741	6622	16676
Craft & Related	42	0	0	124	166
Personal & Protective Services	0	0	0	68	68
Sales & Related	1135	2642	551	572	4900
Production & Process Operatives	123	8	0	107	238
Other	7	0	21	329	357
Total	8639	8070	3734	17006	37449

Source: ESS/KPMG 2001

Table 2: Vacancies by sub-sector

	Financial intermediation	Insurance and funding	Activities auxiliary to financial intermediation	Other Financial Services activities
Vacancies	8639	8070	3734	17007
HTFV	2361	3433	1353	7331
Skill related HTFV	1221	2102	922	4183
Skill related HTFV >3 months	269	1394	327	1845

Source: ESS/KPMG 2001

Table 3: Vacancies by occupation

	Number of vacancies
Managers	3,311
Professionals	6,300
Associate Professionals	5,433
Clerical & Secretarial	16,676
Craft & Related	166
Personal & Protective Services	68
Sales & Related	4,901
Production & Process Operatives	238
Other	356
TOTAL	37,449

Table 4: Hard to fill vacancies by occupation

Hard to fill vacancies	Absolutes	%
Managers	1,244	9
Professionals	2,901	20
Associate Professionals	2,172	15
Clerical & Secretarial	5,263	36
Craft & Related	47	0
Sales & Related	2,674	18
Other	174	1
Total	14,475	100

Source: ESS

Table 5: Skill shortage vacancies by occupation

Skill related hard to fill vacancies	Absolutes	%
Managers	879	10
Professionals	1795	21
Associate Professionals	1669	20
Clerical & Secretarial	2514	30
Craft & Related	47	1
Sales & Related	1524	18
Total	8428	100

Source: ESS

Table 6: Percentage of total employment and estimated total vacancies, hard-to-fill vacancies and external skill shortages in England, analysed by sector

	Total Employment England June 1999 (%)	Total Unfilled Vacancies (%)	Total hard to fill Vacancies (%)	Total external skill shortages (%)
Manufacturing	17	12	14	16
Construction	4	4	8	13
Wholesale & Retail	18	21	18	15
Hotels & Restaurants	6	10	11	6
Transport & Communications	6	6	8	7
Financial Services	5	4	3	4
Business Services	15	15	14	17
Public Administration	5	4	2	2
Education	8	5	4	4
Health & Social Care	10	12	14	10
Other Services	5	5	5	5
Miscellaneous Industries	1	1	1	1
Total numbers	20,040,000	560,000	255,000	110,000

Source: Employment: Labour Market Trends, November 1999

Table 7: Causes of skill shortage vacancies

Causes of skill shortage vacancies	Professionals (%)	Associate Professionals (%)	Clerical & Secretarial (%)
Too much competition	9.9	16.3	9.7
Not enough people interested	4.7	11.9	7.7
Company does not pay enough	1.8	7.8	10.1
Low number of applicants with skills	81.6	79.6	76.5
Low number of applicants with motivation	20	23.2	11.9
Low number of applicants generally	21.4	27.7	12.3
Lack of work experience	49.5	39.2	39.9
Lack of qualifications	27.4	6.6	14.4
Company location	0.5	2.3	0.8
Irregular hours	4.9	14.2	33.6

Source: ESS

Table 8: Implications of skill shortage vacancies

Implications of skill shortage vacancies	Professionals (%)	Associate Professionals (%)	Clerical & Secretarial (%)
Loss of business/orders	37	24	18.8
Delay in developing new products	52.1	40	30.9
Withdrawal of products/service	11.9	12.9	9.5
Difficulties meeting customer service objectives	57.6	68.5	54.4
Difficulties in meeting required quality standards	25.7	23.4	36.7
Increased operating costs	25.7	38.2	53.8
Difficulties introducing technological change	25.8	37.4	31.3
Difficulties introducing new work practices	28.6	31.3	39.6
None of these	0.4	1	0.4
DK/NS	18.6	5.1	11.7

Source: ESS

Table 9: Response to skill shortage vacancies

Response to skill shortage vacancies	Professionals (%)	Associate Professionals (%)	Clerical & Secretarial (%)
Increase training given to existing workforce	45.3	39.8	54.6
Redefine existing jobs	36.5	67.1	57.8
Substitute labour for technology	10.6	14.5	35.7
None of these	25.6	17.4	22.3
DK/NS	—	0.5	1.3

Source: ESS

Table 10: Skills difficult to obtain

Skills difficult to obtain	Professionals (%)	Associate Professionals (%)	Clerical & Secretarial (%)
Basic computer literacy	12.5	8.8	30.9
Advanced IT/software skills	32.7	23.6	32.2
Other technical/practical skills	28.5	59.9	58.9
Communication skills	19.7	37.7	35
Customer handling skills	24.4	29.3	31.7
Team working skills	32	5	17.8
Foreign language skills	0.3	2.5	22.6
Problem solving skills	29.9	39.9	20.3
Management skills	48.8	28.3	8.2
Numeracy skills	12.1	5.5	25
Literacy skills	18	9.6	37.3
Other	16.9	23.4	11.5
No specific skills	4.4	2	0.6
DK/NS	16.6	2.3	5.5

Source: ESS

Appendix 7

Qualifications in the Financial Services sector

A recent survey of accreditation by the FSNT0 identified the following accreditations relating to the Financial Services sector⁸. For a more detailed and comprehensive breakdown of accreditation within Financial Services please refer to FSA's policy statement on CP60 on their website.

Sector	Qualification full	Examining body
Banking	Certificate in Mortgage Advice and Practice (CMAP)	Chartered Institute of Bankers
Banking	Certificate for Financial Advisors (CFA)	Chartered Institute of Bankers
Banking	Certificate in Financial Services Practice (CFSP)	Chartered Institute of Bankers
Banking	Certificate in Bank Card Management (Visa)	Chartered Institute of Bankers
Banking	Professional Investment Certificate (PIC)	Chartered Institute of Bankers
Banking	Certificate in the Marketing of Financial Services (Cert. Mk)	Chartered Institute of Bankers
Banking	Certified Documentary Credit Specialist (CDCS)	Chartered Institute of Bankers
Banking	Diploma in Mortgage Lending (DML)	Chartered Institute of Bankers
Banking	Banking Certificate/Diploma in Financial Services Management (DFSM)	Chartered Institute of Bankers
Banking	Diploma in Trust and Estate Practice (DTEP)	Chartered Institute of Bankers
Banking	Diploma in the Marketing of Financial Services (Dip. MFS)	Chartered Institute of Bankers
Banking	BSc Hons Financial Services / ACIB (BSc FS)	Chartered Institute of Bankers
Insurance	Financial Planning Certificate (FPC)	Chartered Institute of Insurance
Insurance	Mortgage Advice Qualification (MAQ)	Chartered Institute of Insurance
Insurance	Insurance Foundation Certificate (IFC)	Chartered Institute of Insurance
Insurance	Certificate in Insurance Practice (CIP)	Chartered Institute of Insurance
Insurance	Diploma in Life and Disability Underwriting (DLDU)	Chartered Institute of Insurance
Insurance	Lloyds Market Certificate (LMC)	Chartered Institute of Insurance
Insurance	Advanced Financial Planning Certificate (AFPC)	Chartered Institute of Insurance

⁸ This does not include a list of qualifications for the Accountancy profession

Insurance	Associate of the Chartered Insurers Institute (ACII)	Chartered Institute of Insurance
Insurance	Fellowship of the Chartered Insurers Institute (FCII)	Chartered Institute of Insurance
Securities	Investment Administration Qualification (IAQ)	Securities Institute
Securities	SFA Registered Persons Examination (SFA)	Securities Institute
Securities	Investment Advice Certificate (IAC)	Securities Institute
Securities	Securities Institute Diploma (SID)	Securities Institute
Securities	Investment Management Certificate (IMC)	Institute of Investment Management & Research
Securities	Associate of the Institute of Investment Management and Research (AIIMR)	Institute of Investment Management & Research
Financial Services	Insurance Intermediaries 2 (IINT2)	National Vocational Qualifications
Financial Services	Providing Financial Services 2 (PFS2)	National Vocational Qualifications
Financial Services	Insurance General 2 (IG2)	National Vocational Qualifications
Financial Services	Customer Services 2 (CS2)	National Vocational Qualifications
Financial Services	Insurance Life Office 2 (ILO2)	National Vocational Qualifications
Financial Services	Insurance General 3 (IG3)	National Vocational Qualifications
Financial Services	Administration 3 (AD3)	National Vocational Qualifications
Financial Services	Insurance Intermediaries 3 (IINT 3)	National Vocational Qualifications
Financial Services	Supervisory Management 3 (SMGMT 3)	National Vocational Qualifications
Financial Services	Providing Financial Services 3 (PFS3)	National Vocational Qualifications
Financial Services	Insurance Life Office 3 (ILO 3)	National Vocational Qualifications
Financial Services	Customer Services 3 (CS3)	National Vocational Qualifications
Financial Services	Providing Financial Advice 3 (PFA 3)	National Vocational Qualifications
Financial Services	Insurance Intermediaries 4 (IINT 4)	National Vocational Qualifications

Financial Services	Administration 4 (AD 4)	National Vocational Qualifications
Financial Services	Providing Financial Services 4 (PFS 4)	National Vocational Qualifications
Financial Services	Insurance General 4 (IG 4)	National Vocational Qualifications
Financial Services	Insurance Life Office 4 (ILO 4)	National Vocational Qualifications
Financial Services	Management 4 (MGMT 4)	National Vocational Qualifications
Pensions	Trustee Certificate of Essential Pensions Knowledge (TCEPK)	Pension Management Institute
Pensions	Qualification in Public Sector Pension Scheme Administration (PSPSA)	Pension Management Institute
Pensions	Qualification in Pensions Administration (QPA)	Pension Management Institute
Pensions	Diploma in International Employee Benefits (DIEB)	Pension Management Institute
Pensions	Associate of the Pensions Management Institute (APMI)	Pension Management Institute
Securities	Broking Certificate (BC)	Wholesale Markets Brokers Association
Securities	Broking Diploma (BD)	Wholesale Markets Brokers Association
Banking	Certificate in Sales and Service (CSS)	Chartered Institute of Bankers in Scotland
Banking	Certificate in Mortgage Advice and Practice (CMAPS)	Chartered Institute of Bankers in Scotland
Banking	Certificate in Telephone Banking (CTB)	Chartered Institute of Bankers in Scotland
Banking	Certificate in Investment Planning (CIPS)	Chartered Institute of Bankers in Scotland
Banking	Diploma in Financial Services (DFS)	Chartered Institute of Bankers in Scotland
Banking	Associate of the Chartered Institute of Bankers Scotland (ACIBS)	Chartered Institute of Bankers in Scotland
Banking	Members Course (MCIBS)	Chartered Institute of Bankers in Scotland

Source: *Comparison of Financial Qualifications 2000*

Appendix 8

Regional Summary

Area	Assessment of current regional Financial Services
North East	The North East has strong aspirations as a regional financial centre (especially through the promotion of Newcastle). The reality is that there are strong competitors vying for primacy in the market across the whole region. The North East is therefore finding it tough to gain momentum albeit it has secured a number of Financial Services Call Centre activities. In turn, interest is now focusing on how to support these inward investments as the peculiarity of the function starts to fully emerge.
North West	This region is one of the few which could genuinely describe itself as having a 'capital' market. It does not provide the same scale or depth of service as London, Edinburgh and the South East but is recognised as providing more than just 'retail' services. Manchester is the key centre which has benefited from major public and private regeneration expenditure. Public sector support (eg through the new LSC) is structured to support what is thought to be a dynamic sector within the region particularly in terms of future Call Centre and Shared Services activity. However, there are concentrations of the sector (along the M62/M6 interchange) and therefore this is not as uniform a picture across the whole of the region.
Yorkshire & Humber	Leeds is the centre in the North for Financial Services. It is therefore considered to be the key financial centre for the wider region. The city houses important players from the sector, though primarily retail and accountancy. Public sector support through the RDA for example is aware of the sector's importance to the region and as a possible target sector for future support. Dearne Valley in South Yorkshire has also been a target for Call Centre activity.
West Midlands	Call Centre activity within the region (though not necessarily in the Financial Services sector) is strong. It has a mix of Financial Services sectors (though again no wholesale) but not particularly targeted by the RDA for public sector support.
East Midlands	Not noted for its Financial Services sector per se but within commuting distance to the capital then it possibly provides a significant supply of labour to the sector.
South West	Has benefited from growth in the South East and therefore has a number of high profile headquarters for the Financial Services sector (eg Allied Dunbar). Key elements of the sector (bar wholesale activities) are present in the eastern part of the region linked to the M4. Not particularly interested in skills or development for much the same reasons as London and the South East. Public sector support is thought to be of questionable value to the sector in the current climate.
East Anglia	Not particularly recognised for having a high concentration of Financial Services activity.

South East	Similar to Greater London (see below) although not perhaps as concentrated.
Greater London	Very self contained and has by far the greatest concentration of Financial Services activity in the UK (if not Europe). All the key wholesale activity, specialised parts of the retail and key concentrations of the accountancy and other ancillary service clustered within the capital. Alongside its other benefits is an attraction to all with a serious role in the Financial Services sector and therefore the sector finds it difficult to hold a conversation about skills issues at any level.
Scotland	Probably the second most important region in terms of Financial Services within the UK. Very high concentrations of employment within Edinburgh albeit some of the wholesale activity is still evident. Facing acute skills problems due to strong growth including Call Centres although is also at the forefront at developing solutions to address these.
Wales	Struggling to keep pace with recent developments in the sector associated with Call Centre activity. Not particularly endowed with Financial Services but experiencing growth at the sales end of the market and facing difficulties sourcing skills even at this level.

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